The economics of climate change

Economic analysis is important in exploring the causes of climate change, and in devising policies to combat it. For more explanation, see the article by John Sloman on pages 2–5 of this issue of Economic Review

1 There is general agreement among scientists that the global climate is getting warmer.

2 An important contributing factor is the existence of various market failures, in particular the presence of externalities, but also in the form of information asymmetry and distribution.

3 A promising development is the expansion in the use of renewable energy sources — but it is still important to cut emissions.

4 'Green' taxes can be used to internalise negative externalities, and subsidies may internalise positive externalities. An alternative is for governments to use 'command and control' measures.

5 Reaching international agreement on climate change has been difficult, but the Paris conference produced a deal that goes beyond previous agreements.

6 Concerns have been raised that limiting greenhouse gas emissions could restrict economic growth, but some evidence suggests that this has not been the case — and a fall in economic growth may be a price to pay for reducing the impact of climate change.

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