REAL EFFECTS OF CARBON FINANCIALIZATION

The recent influx of financial traders into carbon allowance markets has raised concerns about its distortive effects on carbon allowance prices and its repercussions for firms that rely on these price signals to make emissions decisions. This paper studies how financial carbon trading affects the allocative efficiency of carbon allowance markets and highlights the importance of facilitating financial arbitrages rather than imposing restrictions. Exploiting allowance transaction data in the European carbon market and using carbon policy shocks as supply shifters, I identify a price-inelastic carbon demand by large financial traders. The lack of elastic arbitrage capital is associated with a decline in the carbon price informativeness and contributes to the carbon market crash during the Russia-Ukraine war. The decreased informativeness has real effects: I find that firms with inferior private information reduce their emissions less efficiently when the carbon price is less informative, and the cross-sectional dispersion of carbon intensity increases with the informational inefficiency. I develop a macro-finance model with managerial learning from carbon prices that rationalizes these novel empirical findings.

📅 12 January 2024 (Friday)  📖 SEK205, 2/F, Simon & Eleanor Kwok Building
⏰ 9:30-11:00am  🌐 English

SPEAKER

MR. ZHIMIN CHEN  
PHD STUDENT  
SWISS FINANCE INSTITUTE  
UNIVERSITY OF LAUSANNE

Zhimin Chen is a Ph.D. candidate in Finance at the Swiss Finance Institute and University of Lausanne, and a Visiting Scholar at the Wharton Finance Department, University of Pennsylvania. He was a Chevening scholar, sponsored by the UK’s Foreign and Commonwealth Office (FCO). His research interests include asset pricing, sustainable finance, and structural estimation. Before Ph.D. studies, his research had appeared in academic journals including Emerging Markets Review, and International Economic Review (in Chinese). He served as ad hoc referee for Journal of Banking and Finance.