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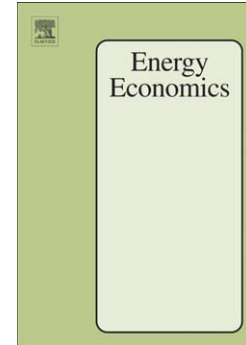
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Alessio D'Amato, Edilio Valentini, Mariangela Zoli

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Tradable Quotas Taxation and Market Power *

Alessio D'Amato[†], Edilio Valentini[‡], Mariangela Zoli[§]

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Abstract

We investigate how *corrective* taxation can improve the efficiency properties of tradable quotas systems affected by market power. Indeed, we show that, when there is a dominant firm in the tradable quota market, the regulator can set an *ad hoc* taxation on firms' traded quotas that restores cost effectiveness without driving the dominant firm's net demand to zero. Achieving cost effectiveness with market power and quotas taxation implies some costs in terms of tax revenue that, however, can be justified by the corresponding reduction of compliance costs. Moreover, we see that there may be cases where all firms result to be better off after the implementation of corrective taxation.

JEL numbers: Q58, H23. **Keywords:** tradable quotas markets, market power, tradable quotas taxation.

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[†]Corresponding author: University of Rome Tor Vergata and SEEDS Interuniversity Research Centre. Email: damato@economia.uniroma2.it.

[‡]University G. D'Annunzio of Chieti Pescara.

[§]University of Rome Tor Vergata and SEEDS Interuniversity Research Centre.

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