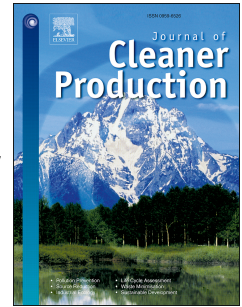


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End-of-pipe or cleaner production? How to go green in presence of income inequality and pro-environmental behavior*

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Abstract

In this paper we consider a vertically differentiated duopoly model in which a green producer competes with a brown rival in a market in which consumers are environmentally concerned. In particular, consumers are assumed to value not only the intrinsic quality of a certain product, but also its environmental impact. This environmental valuation has a positional content: consumers attach a positive attribute to the green product, while penalizing the brown one. In this context, we consider the choice of the green firm between *cleaner* and *end-of-pipe* abatement efforts. We find that the interplay between the intensity of market competition, consumers' income disparity and environmental concern can play a crucial role in directing the green producer towards one or the other technological choice. More precisely, the adoption of cleaner production technologies can be discouraged by low average income and by tough competition, while it can be spurred by the moral/social incentive towards pro-environmental behavior.

Keywords: Relative Preferences, Hedonic Quality, Environmental Quality, End-of-pipe Technology, Cleaner Technology.

JEL Classification: D62; L13; H13.

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