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Sequestration and the Engagement of Developing Economies in a Global Carbon Market

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Abstract

We develop a differential game within a general equilibrium framework of carbon sequestration with and without international trade. We characterize the game's equilibrium and demonstrate how a global carbon permit market can be structured to induce the participation of developing countries through the harnessing of their potential to sequester carbon. We show that a permit market with carbon sequestration is mutually welfare improving for developed and developing nations, and that international trade in finished goods and carbon permits lowers the stock of global pollution.

JEL: F1, Q2, C6

Keywords: Environment and trade, sequestration, carbon permits, differential games

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