

Climate Politics, Environmental Policy Stringency and Carbon Market Microstructure

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Abstract

Using hand-collected data on the lobby tactics of business lobby groups and the policy actions of policy makers, this study investigates the role of environmental policy stringency in shaping political interactions between these actors and the subsequent impact on the market microstructure of the New Zealand Emissions Trading Scheme. Conditioning on environmental policy stringency, the study finds that policy actions have a constraining effect on market activity while lobby tactics have the opposite effect of increasing market liquidity and participation. Economically, policy actions are associated with a decline in market volume of 24.85 million NZUs, 1021 fewer transactions and 600 fewer market participants while lobby tactics are associated with an increase in market volume of 3.76 million NZUs and 63 additional market participants. The NZU price reacts significantly to both.

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