Abstract

Carbon tax is highly recommended by economists and International Organizations as an efficient market based mitigation instrument. Many countries like Australia, Denmark have already implemented the same. The existing studies use model simulations to study the relevance and impact of carbon tax. This paper estimates the supply and demand elasticity of the CO_2 emissions for the Indian states using a panel analysis and presents a report on the issues in the design of such a tax in the Indian scenario. The CO_2 emissions are highly supply elastic, which implies any increase in price through tax that reduces the consumption will have a mitigation effect. Considering India has not reached the peak levels of emission yet, we can develop the existing technology of renewable resources and start from lower tax rates and a narrow base.