ABSTRACT

This study deals with the question whether financial development reduces CO_2 emissions or not in case of India. The paper tries to determine the casual relationships between carbon emissions, energy consumption, income, and foreign trade. For this purpose, we apply the bounds testing approach to cointegration for long run relations between the variables. The study uses annual time series data over the period 1985-2011.

Our results validate the presence of cointegration between CO_2 emissions, financial development, energy consumption and economic growth. The empirical evidence also indicates that financial development reduces $CO2_2$ emissions. Energy consumption, economic growth and foreign trade add in CO_2 emissions. ARDL model for cointegration and Granger causality tests are employed for the analysis. The present study provides new sights for policy making authorities to use financial sector as an instrument to decline energy emissions.