

# The Costs Of Environmental Regulation In A Concentrated Industry

**Stephen P. Ryan, (ECMA, 2012)**

presented by Paul Anthony Sarkis

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# Setting

- ▶ Clean Air Act (Amendments of 1990)
  - ▶ Regulation to reduce emissions
  - ▶ Engineering estimates for CBA (static) = based mainly on compliance cost
- ⇒ Miss the effect of sunk costs and investment costs
- ▶ BUT they are important:
  - ▶ Leads to fewer firms and lower production
  - ▶ In already concentrated industries!

# Empirical Strategy

- ▶ Estimation of a dynamic oligopoly model using a two-step estimator (Bajari, Benkard and Levin, 2007)
  - ▶ 1st step: recover what firms do
  - ▶ 2nd step: recover params that rationalize choices
- ▶ Simulation of the model to compute variables:
  - ▶ Welfare (producer and consumer)
  - ▶ Number and size of firms
  - ▶ Costs distribution before/after