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# Cost Uncertainty in Experimental Emissions Markets and Price Control

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## Abstract

In this paper, we use experimental emissions trading markets to investigate the effects of two types of instruments for dealing with the negative effects of price risk, that results from the potential shocks that could affect production costs. As per the results obtained, the first mechanism that allows banking and borrowing permits from one period to another, yields some important benefits in terms of the reduction of price volatility, price dispersion and it significantly increases market liquidity, leading to overall flatter price series. The second instrument, besides allowing for permit transfer, also considers an adjustable supply of permits, such that besides managing to stabilize the price path, it also creates more significant results in terms of settling it around a desired target price level.

**Keywords:** Market Design, Emission Permits, Experimental Economics, Price Control.

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