

# Buy coal! Deposit markets prevent carbon leakage

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## ABSTRACT

I analyze the private provision of a public bad when some agents cooperate while others do not. The nonparticipants provide too much public bad, and they invest too little in substitute technologies. The cooperating agents' second-best policy is distortive and not time consistent. After reviewing earlier results on this problem, I add a market for production factors and shows that it implements the first best. This result illustrates that efficiency can be obtained without Coasian negotiations ex post, if key inputs are tradable ex ante. For climate policies, the lesson is that targeting the supply side is more effective than targeting the demand side.

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