

Abstract of “Individual Transferable Quotas in Cournot Competition”

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We focus on the individual transferable quota (hereafter ITQ) system. In a product market, firms engage in Cournot competition where firms cannot set their quantities more than the quotas that they possess. The firms can trade the quotas initially distributed to them in a perfectly competitive market. We show that an inefficient outcome may be realized. Moreover, we show that inefficient trades can occur; that is, a firm can sell quotas to a less efficient firm. In addition, we discuss appropriate policy instruments for regulations by comparing three instruments: ITQs, individual non-transferable quotas and specific taxes.

Keywords: Individual transferable quota; Cournot; Taxation; Regulation

JEL classification codes: Q22; L13; Q28; Q58