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Note

A note on Coasean dynamics

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Abstract Under certain conditions, externalities may be internalized by voluntary agreements between the involved parties. According to the Coase theorem, the equilibrium allocation is independent from whether the property rights are assigned to the polluter or to the pollutee. In this article we extend the Coasean approach to a dynamic setting allowing for induced technical change. It is shown that, within the Coasean framework, not only equilibrium pollution abatement but also equilibrium investment into technical progress is Pareto optimal and independent from the distribution of property rights.

Key words Coase theorem · Technical progress