



Contents lists available at ScienceDirect

Journal of Environmental Economics and Management

journal homepage: www.elsevier.com/locate/jeem



Incentives to diffuse advanced abatement technology under environmental liability law

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ARTICLE INFO

Article history:

Received 19 March 2010

Available online 5 January 2011

Keywords:

Environmental liability law

Emission abatement technology

Diffusion

ABSTRACT

Polluting firms with advanced abatement technology at their disposal have incentives or disincentives to share this technology with other polluting firms. The 'direction' and extent of those incentives depends on the liability rule applicable and the way technical change impacts marginal abatement costs. We establish that incentives for diffusion are socially optimal under strict liability and socially suboptimal under negligence if technical change lowers marginal abatement costs for all levels of abatement. Negligence may, however, induce better diffusion incentives than strict liability if technical change decreases (increases) marginal abatement costs for low (high) levels of abatement.

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