

General equilibrium with externalities; revisiting the Coase theorem

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Resumo/Abstract:

We consider an economy with externalities within a general equilibrium setting. In our model externalities arise from the over use of some resources. In order to mitigate their negative effects, we consider that a cap on the consumption of each commodity that may originate externalities is exogenously imposed. We show that to set a cap (quantity regulation) may result in a problem of equilibrium existence. Moreover, in our model permissions or rights are required in order to consume these commodities and these permissions are allocated among consumers. Assuming that they can be costless traded, we obtain equilibrium existence. However, equilibrium allocations may be, in general, inefficient. In order to analyze efficiency in this general setting, we define different core solutions and, assuming that externalities do not appear below a given level of consumption, we show that the any equilibrium allocation is in the core and, in particular, it is efficient.