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Research Paper "Carbon Pricing versus Green Finance" wins Swiss Finance Institute Outstanding Paper Award 2023

The Swiss Finance Institute has given its Outstanding Paper Award to "Carbon Pricing versus Green Finance," a research paper by Lasse Heje Pedersen, Copenhagen Business School, that focuses on combating climate change.

Geneva, 16 November 2023. The Swiss Finance Institute's college of chairs has named Professor Lasse Heje Pedersen, Copenhagen Business School, as winner of the Swiss Finance Institute (SFI) Outstanding Paper Award 2023. This prize distinguishes an unpublished research paper expected to make an outstanding contribution to the field of finance.

In his paper, Lasse Heje Pedersen focuses on what is the most appropriate tool to combat climate change. On the one hand, economics recommends various carbon pricing mechanisms such as taxes, allowances, and offsets. On the other hand, green finance has become increasingly popular whether in the form of sustainable finance regulation, ESG investing, or impact investing. In a unified model, which includes both carbon pricing solutions and green finance solutions, Professor Pedersen shows that social optimum is achieved by a common carbon price levied on scope 1 emissions—those directly related to what a company burns—and *no* green finance interventions. The model further suggests that green finance can be a useful alternative when adequate carbon pricing is not available. Empirical data reveal that wealthier countries not only price carbon at a higher price but also showcase higher ESG investing. Further analysis reveals that carbon pricing is positively linked to democracy and knowledge of global warming, and negatively linked to a country's level of carbon emissions. Overall, Professor Pedersen's findings demonstrate that governments need to fight climate change with the most effective tool—carbon pricing—by ensuring full coverage and pricing that adequately reflects social costs. Otherwise, capital owners, who cannot implement carbon pricing mechanisms, may be attracted to taking the less efficient route of green finance.

The winner of the SFI Outstanding Paper Award 2023 will present his research during the SFI Research Days in June 2024. The research paper can be accessed at https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4382360.

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Swiss Finance Institute

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