



ESG INVESTING

Carbon Pricing versus Green Finance

March 14, 2023

"Carbon Pricing versus Green Finance," won the Swiss Finance Institute's 2023 Outstanding Paper Award. Selected by the Swiss Finance Institute's college of chairs, the annual prize distinguishes an unpublished research paper expected to make an outstanding contribution to the field of finance. Read more [here](#).

Economics recommends combating climate change with carbon pricing, but green finance (ESG investing, sustainable finance regulation) is becoming widespread. In a unified model, I show that green finance should not be used if the carbon price equals its social cost. However, with too low carbon prices, green finance can implement the social optimum if the cost of capital can be controlled and there are no stranded assets. I show explicitly how to "translate" a carbon tax into green finance terms, highlight how green finance should depend on scope 1, 2, and 3 emissions, present its limitations, and illustrate the predictions empirically.

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