

Economics Seminar, Indian Statistical Institute, New Delhi.

SPEAKER: **Soham Baksi**, University of Winnipeg

TITLE: **Environmental Regulation in the Presence of an Informal Sector**

TIME: 2:30 PM.

DAY & DATE: Friday, 25th November, 2011

PLACE: Seminar Room 2

Abstract:

We analyze the efficacy of environmental regulation in the presence of an endogenous informal sector. Firms in an imperfectly competitive formal sector produce a final good using a polluting intermediate good. The firms can either produce the intermediate good or purchase it from a price-taking informal sector. An environmental regulator sets the emission intensity of the intermediate good that all formal sector firms implement honestly but informal sector firms seek, and are sometimes able, to evade. We show that, depending on the stringency of the regulation and its enforcement, the informal sector can act as a source of pollution leakage. Stricter regulation can increase or decrease total pollution, and may even have a non-monotonic impact. Further, price discrimination by the formal sector, when it purchases the intermediate good from the informal sector, can worsen regulatory compliance by the informal sector and lead to lower welfare.

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