Optimal Portfolio Selection in Carbon Emissions Market

Jenny Sexton
The University of Manchester
United Kingdom
jennifer.sexton@postgrad.manchester.ac.uk

Abstract.
In 2008 new phase of an emissions trading scheme was launched in the EU in order to regulate the quantity of carbon dioxide emitted by key industries. We show that a regulated firm should consider both abatement and active portfolio management in its optimal response to this legislation. These observations are extended to a continuous time partial-equilibrium model to highlight the connection between physical production and participation in this new financial market. The policy implications of the optimal trajectories are discussed.

Keywords New Markets; Portfolio Optimisation; Stochastic Control

This is joint work with Goran Peskir.