

## **CARBON TAX AS A CLIMATE POLICY INSTRUMENT: A COST-BENEFIT ANALYSIS**

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### **Abstract**

A carbon tax is a climate policy instrument that imposes a fee on emissions of carbon dioxide (CO<sub>2</sub>) or other greenhouse gases, with the aim of reducing such emissions. The research method is literature review. The results of the study show that a carbon tax can reduce emissions by encouraging increased energy efficiency and adoption of clean technologies by companies. The economic benefits of a carbon tax include the creation of a new source of revenue for the government, which can be used to fund environmental initiatives and support vulnerable groups. The results also reveal that a carbon tax has the potential to change people's consumption behaviour by internalising the external costs of carbon emissions. Increasing the price of goods and services with a high carbon footprint encourages consumers to choose greener alternatives, thereby increasing demand for green products and fuelling innovation in sustainable technologies.

Keywords: Carbon Tax, Climate Policy Instrument, Cost and Benefit Analysis.

### **Introduction**

Climate change is one of the biggest challenges facing humanity in the 21st century. Rising global temperatures, increased frequency of natural disasters and drastic changes in weather patterns are some of the impacts that are already being felt. One of the main causes of climate change is greenhouse gas emissions, especially carbon dioxide (CO<sub>2</sub>) resulting from human activities such as burning fossil fuels (Abeyratne, 2020).

Changes in extreme weather patterns, such as prolonged droughts, floods and typhoons, have threatened food security, water resources and infrastructure security.

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