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Energy Efficiency Economics and Policy

Kenneth Gillingham (/search?value1=Kenneth+Gillingham&option1=author&noRedirect=true&sortField=prism_publicationDate&sortDescending=true)[1], Richard G. Newell (/search?value1=Richard+G.+Newell&option1=author&noRedirect=true&sortField=prism_publicationDate&sortDescending=true)[2,3,4] and Karen Palmer (/search?value1=Karen+Palmer&option1=author&noRedirect=true&sortField=prism_publicationDate&sortDescending=true)[3]

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Abstract

Energy efficiency and conservation are considered key means for reducing greenhouse gas emissions and achieving other energy policy goals, but associated market behavior and policy responses have engendered debates in the economic literature. We review economic concepts underlying consumer decision making in energy efficiency and conservation and examine related empirical literature. In particular, we provide an economic perspective on the range of market barriers, market failures, and behavioral failures that have been cited in the energy efficiency context. We assess the extent to which these conditions provide a motivation for policy intervention in energy-using product markets, including an examination of the evidence on policy effectiveness and cost. Although theory and empirical evidence suggests there is potential for welfare-enhancing energy efficiency policies, many open questions remain, particularly relating to the extent of some key market and behavioral failures.

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