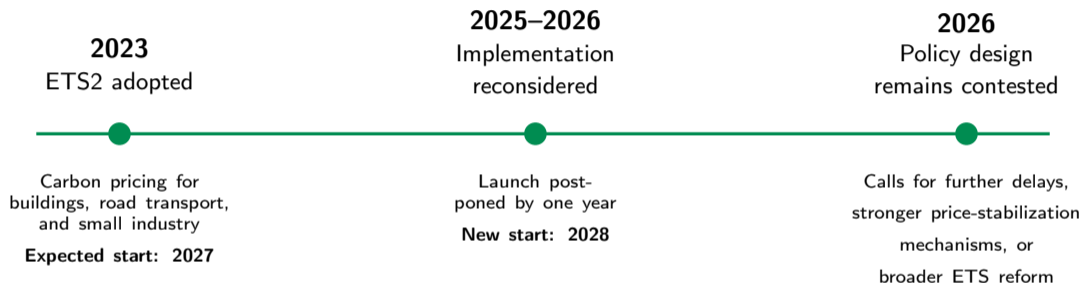


Macroeconomic and Environmental Effects of Climate Policy Uncertainty A Sectoral Reallocation Perspective

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- Firms face uncertainty about the **timing of the effective implementation** of ETS2.
- (Climate policy) uncertainty affects firms' decisions and aggregate activity
 - The literature has mainly focused on the *intensive margin*.

This paper studies the effects of climate policy uncertainty (CPU) on the **extensive margin** of activity.

Contribution: Interaction **CPU** and **sector-specific firms' entry**

→ Bernard, Redding, and Schott (2010): new products ↔ 46.6% of US GDP

Theoretical framework

- Endogenous product creation and firm entry
- Two sectors: clean and dirty
- No carbon tax today, but it may be introduced next period
- GE and environmental effects

→ How **persistent uncertainty** shapes firms' **long-term** entry decisions

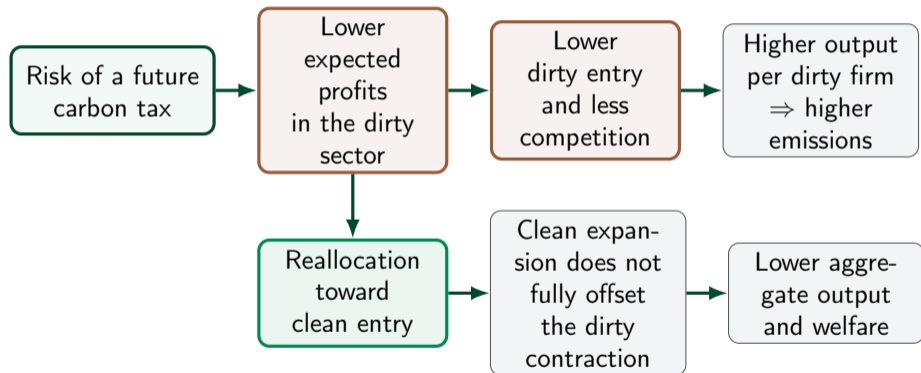
Empirical analysis

- US quarterly data, 1987–2013, VAR
- Newspaper-based index
- Patent applications as a proxy for product creation
- Clean and dirty patents distinguished by technology class

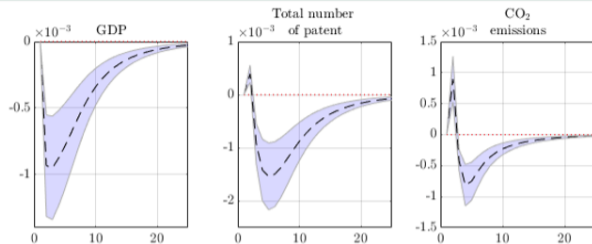
→ How **fluctuations in uncertainty** shape firms' **short-term** entry decisions

Theoretical mechanism & predictions

Counterfactual analysis: economy with CPU vs. economy without...

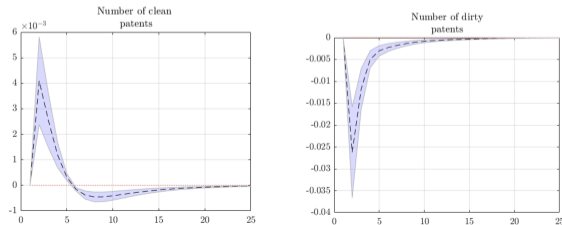


The data support the model's predictions



GDP and aggregate product creation decline, while emissions increase...

Reallocation **from dirty toward clean technologies:**



Main takeaway

Climate policy uncertainty reallocates entry toward the clean sector, but is economically and environmentally costly.

It raises emissions while reducing output and welfare.

The paper is part of an active research agenda:

- Introduce capital to distinguish the **intensive** and **extensive** margins of adjustment
- Move from a one-time policy-arrival risk to a **Markov-switching policy regime...**
- ... Endogenize beliefs about climate-policy credibility and persistence
- Introduce learning
- My current work in the **BELIEFS project** at the University of Bologna

Thank you!

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