

Using the Inforum LIFT and Mudan Models to Investigate the Effects of Cap & Trade Legislation on International Leakages

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The inter-industry- macroeconomic approach to economic modeling attempts to provide both the dynamics and high-level accounting of the macro models and the industry structure featured in the general equilibrium approach. The LIFT (Long-term Interindustry Forecasting Tool) model is a version of this approach for the U.S. economy, and Mudan model is a similar model for China. This paper provides brief descriptions of the LIFT and Mudan models and presents an exercise using the two models in the dynamically linked Bilateral Trade Model (BTM).

This study investigates the deployment of cap and trade policy in the U.S. This policy is based on the recently proposed Waxman-Markey bill. The analysis traces the effect of the carbon price on sectoral prices, and the resulting impacts on sectoral outputs and employment. It focuses particularly on the trade effects. Four scenarios are run, based on differing responses of China's policy makers to the U.S. carbon price. This paper discusses the implementation of these scenarios and reviews the results, including the U.S. trade impacts in the different cases. This paper focuses on effects of the legislation from the U.S. perspective, but we also discuss some of the policy issues and choices from the Chinese perspective.