
The new keynasian climate model

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Abstract

This paper develops and estimates a non-linear New Keynesian Climate (NKC) model for the world economy featuring climate change damage and mitigation policy. The model boils down to four equations: Phillips and IS curves, as well as a monetary policy rule and a law of motion for CO2 emissions. This framework allows us to identify two phenomenons faced by the central bank. The first one is a persistent negative supply shock called clirnateflation that arises from the deleterious effects of climate change itself. The second one is a transitory positive demand shock called greenflation that appears following the implementation of a climate mitigation policy. JEL: E32, E52, Q50, Q54.

Keywords: Climate change, inflation, E, DSGE model, Bayesian estimation, stochastic growth

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