

# Green Consumerism and Firms' Environmental Behaviour under Monopolistic Competition: A Two-sector Model

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We investigate the pro-environmental behavior of green firms in a context where consumers value the eco-quality features embodied in the goods consumed. We present a two-sector monopolistic competition model with green and brown goods displaying both horizontal and vertical differentiation. By means of analytical and quantitative techniques, we derive the optimal eco-quality level selected by green firms and the industry structure both in the short- and long-run equilibrium. We then study the effectiveness of three policy tools (green incentives, MQS and green campaigns) with respect to the regulator's objective of increasing the overall level of the greenness, which we measure through a specific indicator. We find that each policy alone is apt to stimulate an increase in the greenness intensity compared to the unregulated equilibrium and that the joint use of the three policies helps to attain a greater level of greenness than that resulting from just one of them. The different transmission mechanisms, however, make the policy instruments not neutral with respect to the equilibrium structure of the industry that emerges after the regulatory interventions.

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