

The Role of Behavioural Economics in Energy and Climate Policy

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Abstract

This article explores how behavioural economics can be applied to energy and climate policy. We present an overview of main concepts of behavioural economics and discuss how they differ from the assumptions of neoclassical economics. Next, we discuss how behavioural economics applies to three areas of energy policy: (1) consumption and habits, (2) investment in energy efficiency, and (3) provision of public goods and support for pro-environmental behaviour. We conclude that behavioural economics seems unlikely to provide the magic bullet to reduce energy consumption by the magnitude required by the International Energy Agency's "450" climate policy scenario. However it offers new suggestions as to where to start looking for potentially sustainable changes in energy consumption. We believe that the most useful role within climate policy is in addressing issues of public perception of the affordability of climate policy and in facilitating the creation of a more responsive energy demand, better capable of responding to weather-induced changes in renewable electricity supply.

Keywords

behavioural economics, energy economics, energy demand, energy efficiency, private provision of public goods

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