Market Equilibrium in the Presence of Green Consumers and Responsible Firms: a Comparative Statics Analysis

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Most of the existing models regarding the influence of green consumers on the market equilibrium, assume that firms behave as standard profit maximizers. However, in some markets we can observe competition between firms with different aims: standard for profit firms may compete with non-profit firms, whose main objective is the maximization of the positive externality associated to their production. For this reason we propose a more general approach in which firms' objective function weighs together both profit and the social impact of their actions. Our purpose is to analyze:

- whether a higher level of responsibility of both consumers and producers is always associated to a more efficient result in terms of pollution control;
- whether a full responsibility of both producers and consumers is sufficient to attain the first best level of pollution.

The main result is that a higher responsibility by both producers and consumers can have different impacts on the efficiency of the firms' abatement activity, depending on the nature of the cleaning costs. When the abatement costs are fixed, the efficiency of the clean-up effort is always increasing in their degree of responsibility. On the other hand, when the abatement costs are variable, a higher level of responsibility may reduce social welfare. Finally, the first best allocation is never reached, even in the presence of the highest credible level of responsibility of both consumers and producers.

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