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*Efficiency and Inefficiency in Emission License Auctions*

Emission license auctions aim to control the negative externalities of pollution by distributing identical permits to firms, up to a cap. We can view this as a multi-unit auction with a convex and increasing social cost of production. The goal is to allocate an efficient number of licenses, distributed to the firms that would make the best use of them. Unfortunately, strategic bidding behavior—such as demand reduction—can dramatically affect welfare outcomes, especially in the presence of social costs. In this talk we will explore simple augmentations to the standard auction format that can help limit the impact of strategic manipulation.