Each region is assumed to introduce a carbon tax in 2013. The tax rate is common across regions and is calibrated to achieve a 60 percent reduction relative to the 2002 level in world (energy-based) carbon-dioxide emissions by 2100. This corresponds to a 96 percent reduction in global emissions relative to the baseline at 2100. The emission profile is mildly hump shaped, allowing for some increases in the medium term, peaking in 2018.

Source: IMF staff estimates.

Output refers to gross national product. Interest rate refers to 10-year real interest rate. For real effective exchange rate, a positive value is an appreciation relative to the baseline.