

CLIMATE CHANGE AND THE GLOBAL ECONOMIC POLICY RESPONSE: AN ANALYTICAL REVIEW

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ABSTRACT: Climate change is increasingly becoming a threat faced globally by challenging stability of economies, social fairness, and environmental sustainability. In reaction, governments and international organizations have established a series of economic policy instruments with the view of mitigation and adaptation. This review compiles available data regarding various instruments crucial to any economy, such as carbon taxes, trading emissions systems, climate finance mechanisms, and innovation incentives - their effectiveness, equity impacts, and challenges of implementation. Studies across different parts of the world identify that carbon pricing systems that are properly designed have the potential to cut emissions without hampering economic growth, particularly when the proceeds are recycled back into the community, and benefited by the low-income citizens. Moreover, it is revealed that investment by the government in green technologies and robust infrastructure can provide a good level of economic returns and long-term growth. Nevertheless, the reaction to these developments on the global scale is still disjointed, and the most significant issues that await solutions are poor financing of the climate change issues, lack of policy consistency, and unfair availability of adaptation funds. The paper summarizes and suggests a combination of a less siloed, fair and evidence-based approach to secure better results in climate economic policy responses of both developed and developing economies.

KEYWORDS: Climate Change, Carbon Pricing, Emissions Trading Systems, Climate Finance, Economic Policy, Adaptation

1. INTRODUCTION

Climate change has been subjected to the idea of human survival, the globe economizing, natural ecosystems, and the welfare of the human society. Global temperature has enhanced, and human-caused emissions of greenhouse gases (GHG) have caused even more frequent and extreme weather patterns, including droughts, hurricanes, floods, and wildfires (IPCC, 2021). The economic burden of the events is large, as it inflates the sphere of agriculture, infrastructures, productivity of labour, and human health. The World Bank (2022) projects that over 130 million people will fall into poverty by 2030 unless pathbreaking mitigation and adaptation interventions take place. With the physical consequences of climate change becoming more and more apparent, it is becoming even more economically important to maintain a strong policy initiative.

The general development of climate change economic policy response in the world has gone through a major development within the past few decades, evolving the informal, decentralized method of

responding to an organized and coordinated process. Multilateral instruments like the Kyoto Protocol (1997) and Paris Agreement (2015) have played an important role of motivating countries to set emission reduction goals and establish climate action strategies. Nevertheless, the rate of adoption of policy has been incredibly different among regions, and on many occasions according to the disparity of economic ability, institutional preparedness, and political determination (Aklin & Urpelainen, 2014).

Carbon pricing, green taxation, cap-and-trade and climate finance functions are taking centre stage as tools in the policy armoury in combating climate change. These instruments are supposed to internalize the price of social expense of carbon emissions and change the production and consumption tendencies to more sustainable course actions (Stiglitz et al., 2017). Individually, examples of such pricing include carbon taxes or emissions that have been implemented in over 70 jurisdictions globally, with nearly 23 percent of the world emissions currently covered (World Bank, 2023). Although these are commendable measures they have several shortcomings such as low carbon prices, fragmentation in policy coordination and non-coordination at a global level.

Complementary to the mitigation policies is the climate adaptation policies whose popularity has been witnessed especially in the developing economies which are vulnerable. Redundant infrastructure, climate smart agriculture, early warning, insurance plans have turned into essential elements of national economic planning. According to the estimates provided by the Global Commission on Adaptation (2019), each dollar spent on adapting to climate change can result in up to seven dollars of economic value, which indicates the great returns of pre-emptive climate resilience approaches.

The international bodies including United Nations Framework Convention on Climate Change (UNFCCC), the International Monetary Fund (IMF) and the World Bank play an important role in developing the global policy response. Such bodies enhance funding, technical assistance, and coordination of policies and especially in case of low- and middle-income countries that are disproportionately affected by the consequences of climate change but emit the tiniest emissions (UNEP, 2021).

The international economic response to climate change is experiencing many challenges notwithstanding the increased momentum. Some of them are political economy dependency on fossil fuels, unfairness in distributing climate finance, lack of efficient enforcement procedures in global agreements, and possibility of excessive carbon leakage in international trade. Furthermore, climate mitigation efforts have been facing additional threats to success as the COVID-19 pandemic and geopolitical tensions displace the focus and resources.

The aim of this review paper therefore is to synthesize the existing literature pertaining to the economic policy responses to climate change, and evaluate them in terms of their design, effectiveness and implementation in various countries and regions. It also aims at identifying the best practices, points out weaknesses in present practices, and gives policy recommendations on how to improve the response of the world economy to the climate crisis. With contributions made by fields of economics, public policy and environmental studies the paper will add to a altogether improved comprehension of how countries can design effective and fair national plans to cope with climate change in the 21st century.

2. CARBON PRICING: TAXES VERSUS EMISSIONS TRADING SYSTEMS

Carbon pricing is generally seen as a strong and cost-effective option to reduce the emission of greenhouse gasses (Stiglitz et al., 2017). There are two main forms (carbon taxes and emissions-trading systems (ETS)) which are widely represented in the literature.

2.1.1 Carbon Taxes

The academic justification behind carbon taxes is the Pigouvian models of social cost of carbon (Metcalf, 2021). Practically, the revenue-neutral carbon tax in British Columbia has performed so that there is a 17 percent decrease in per capita consumption of fossil fuel that has not affected economic growth negatively (Elgie & Beaty, 2013; BC Ministry of Environment, 2013). According to a broader meta-analysis, carbon taxes are also associated with a consistent decline in the CO₂ emissions and a limited impact on GDP (Ahmad et al., 2024); Also, studies conclude that income taxes will cause minor jobs growth as far as efficiency of fuels is increased (Pearce, 2013; [Antonia Grunewald at the World Bank, 2013]; Nonetheless, the distributional consequences are different; there are indications that carbon taxes can be progressive in low-income states, but regressive in high-income ones (Coady et al., 2017;

2.1.2 Emissions-Trading Systems (ETS)

ETS schemes involve limitation in the total emission, in addition to the liberty to trade on the allowance by firms, offering both certainty and market over compliance. Although carbon prices were initially low in the EU ETS, it has been shown that GDP and employment related costs have been minimal, resulting in huge emission reductions (~810%) in the period 2005 2012 (European Commission,). In China, ETS pilots have demonstrated their prospect of alleviating emissions of CO₂ by nearly 1.7 percent relative to the increment of the dollar to the carbon price and promoting economic development (Wu, Qiu, & Guo, 2023;). Such results confirm the feasibility of ETS, especially, due to coverage and permit allocation being well-designed (Ahmad et al., 2024; 2024;).

2.1.3 Comparative Efficacy

Meta-analyses show that carbon tax does better at reducing carbon emissions than ETS but ETS has been shown to be more accommodative to sector specific flexibility (Ahmad et al., 2024;). The performance of hybrid systems is much better (as witnessed in computable general equilibrium (CGE) modelling of China (Wang et al., 2025;).

2.2 Economic Growth, Macroeconomic Impacts, and Social Costs

In the past, the carbon pricing regimes have managed to curb emissions without much impact on the economic growth or jobs. To give a further example, in Indonesia, a fuel tax achieved the same result of raising GDP by 0.29% at a level of GDP below 2030, and carbon taxes and ETS had similarly slight effects on GDP (declines of -0.11 and -0.11%, respectively) but met their emission reduction goals (Thompson et al., 2020). Carbon taxes are threatening the livelihoods of millions of adults and children everywhere, yet universal meta-analyses of climatic policy effects report that carbon taxes have little or no impact on GDP (Zhang et al., 2023).

Integrated assessment models (IAMs) perform calculations to soon estimate social cost of carbon (SCC) to help in policy design. Referring to their studies, Cai, Judd, and Lontzek (2015) proved that incorporation of the risk of both the economy and climate could lead to a tenfold increase in the estimates of SCC, which is why precautionary policy making is vital. Remarks by economists on carbon dividends endorse disclosure and fair distribution of carbon prices with the income being paid back to families (Climate Leadership Council, 2019). However, policy credibility may suffer due to politically caused SCC uncertainty such as the policy alternation in the U.S. (EPA, 2023;).

2.3 Technological Change and Innovation

An expanding literature of ex-post studies associates carbon prices with high-carbon low-carbon and energy efficiency advancement. Lilliestam (2021) reviews the examples of countries around the globe, including those of British Columbia, EU, and New Zealand, where clean technologies are being adopted quicker in places where carbon price is above low levels. Increase carbon prices also provide incentives to innovation, foreign investment and energy mix change particularly amongst ETS covered companies (Wu et al., 2023).

Preliminary evidence in China has indicated that collaborative ETS-and-tax mechanisms lead to greater innovation in the cleaner sectors, which indicates that hybrid policy modelling can provide the best policy incentives to decarbonize (Wang et al., 2025;).

2.4 Equity, Distributional Impacts, and Political Acceptability

The issue of equity is the centre of climate policy. Meta-analysis indicates that carbon pricing in the developing economies has the characteristic of being progressive but can severely impact the low-income households in the rich countries, unless the revenue recycling is broadly targeted (Coady et al., 2017). Moreover, this Potsdam Institute points at the fact that the effectiveness of policies in tackling climate often depends on social justice measures that should be consistent with social acceptance (FT, 2024).

To alleviate the carbon leakage effects and balance competitive gaps, the idea of border carbon adjustments and climate clubs has been brought out. Nevertheless, the tools have concerns of fairness, adherence to the trade law, and administrative complexity, particularly to the developing countries (FT, 2025).

2.5 Climate Finance and Adaptation Economics

The investments in adaptation are also significant when adaptation is compared to mitigation since there is a significant payoff. GCA put the resilience-building cost at a dollar and estimated a 7-dollar payback to each dollar invested in these measures (GCA, 2019). However, empirical summaries of current climate finance allocations around the globe indicate a continuation of underfunding adaptation in comparison to mitigation and with the prevailing skew on the developing world (Kumar et al., 2023).

3. METHODOLOGY

The qualitative and analytical research design applied in this paper is based on secondary data analysis about the study of the climate change economic policy responses by different regions in different global contexts. It is based on the narrative literature review, i.e., the method will be used to synthesize the results of peer-reviewed journals, working papers, institutional reports, and meta-analyses published over the past 4 years (since 2000 until 2024). This review is concentration on the manner in which various nations and organizations have formulated and enacted the economic policies- the carbon pricing, the schemes of emissions trading implementations, and the climate finance systems, to address the jolt of global climate change.

Academic databases used to collect the literature included Google scholar, JSTOR, Scopus, science direct, springer link and EBSCOhost generic databases; institutional sources included the World Bank, IMF, IPCC, UNEP, OECD and the climate policy initiative. Searches were done using the following keywords: climate change economic policy, carbon pricing effectiveness, emissions trading systems, green taxation, climate finance, adaptation economics, economic impact of climate change mitigation. Literature inclusion criteria included: (1) both peer-reviewed journals and reputable institutional publications; (2) the reference to main research issues of climate change and economic policy-making.

Peer-reviewed research articles and policy reports were chosen on the basis of theme, quality of citation, and empirical strength. The sample studies were reviewed in order to identify key trends, policy outcomes, degree of effectiveness and shared issues in various countries and policy frameworks. Cross- country comparison was also used to determine the best practices as well as barriers to implementation in different regions.

Thematic organization: The review consists of six broad dimensions of climate-related economic policy, (1) carbon pricing mechanisms, (2) macroeconomic effects and growth implications, (3) innovation and technological transitions, (4) equity and distributional outcomes, (5) climate finance and adaptation policy, and the 6) political economy and international cooperation. The limitations of

this research methodology are the inability to use any non-English sources, the possibility of choosing biased literature source, and no primary studies or field data interviewing.

The overall purpose of this qualitative synthesis is to give a full picture of the strengths and limitations of the global economic policy reactions towards climate change including new trends towards the topic; therefore, to present evidence-based basis of future researches and policymaking.

4. DISCUSSION

The overview of climate policy of the economies in the world shows that there is a complicated, developing and usually fragmented reaction to a challenge of an unprecedented magnitude. Although climate change and its impacts are scientifically determined (IPCC, 2021), the differences in the responses of the same across regions reveal that the political willingness, institutional preparedness and the socio-economic capabilities among countries are uneven.

Among key lessons learned is that not only is there a burgeoning agreement on the efficacy of carbon pricing mechanisms, such as carbon taxes and emissions trading systems (ETS), as a cost-effective means of greenhouse gas emissions reduction, but also there is strong agreement that such a pricing mechanism should serve as the foundation of a comprehensive carbon pricing policy. The experience of both developed and emerging economies shows that with adequate implementation, a carbon price can cause a decline in carbon emissions without a significant adverse effect on economic growth (Metcalf, 2021; Wu et al., 2023). The ETS in the European Union has most especially shown success in de-linking emissions and growth of the GDP, whereas British Columbia and Swedish countries have proven that the implementation of carbon taxes was not an obstacle to its competitiveness. Nevertheless, carbon prices in the world market are low and significantly below the carbon price that could reach the goals provided in the Paris Agreements (Stiglitz et al., 2017), as the governments have not introduced it due to political unwillingness, the pressure of industries with high carbon emissions, and budget and political concerns of the population.

The other important theme that also comes out of the literature is the issue of innovation and technological change. Climate policies that are based on markets, at least when they are combined with governmental support of R&D, have been demonstrated to promote innovation in low-carbon technologies, whether renewable energy and electric cars, carbon capture and storage. In line with this, multiple studies note that one of the market clear signals requiring the investment into green technologies on the part of the private sector lies in the availability of predictable and adequately high carbon prices (Lilliestam et al., 2021). Nonetheless, decarbonization through innovation also requires complementary infrastructure, institutional coordination, and long-term stability in the policies that are often unavailable in many low and middle-income countries.

Effectiveness of carbon pricing modes (such as the carbon taxes and emissions trading systems (ETS)) as cost-effective means of mitigating greenhouse gas emissions. Experience in both developed and emergent economies suggests that carbon pricing may be able to achieve emission reduction with modest cost toward economic growth, particularly with a well-formulated structure (Metcalf, 2021; Wu et al., 2023). The ETS in particular has been good with the European Union to decouple emission and increase in GDP, and the case of other regions such as British Columbia and Sweden shows that it is viable to introduce carbon tax without it necessarily slowing down the competitiveness. But the prices on global carbon are by far too low to meet the Paris Agreement targets, which can be explained by political opposition, pressure on the governments by carbon-intensive industries, and popular worries about increasing the prices (Stiglitz et al., 2017).

Funding on the climate adaptation and mitigation especially in the vulnerable developing economies is a key snag. Although global commitments, like the \$100 billion commitment per year made by the

developed nations, are a move in the right direction, the climate financing is below its targets, and a tremendous amount is spent on mitigation and not adaptation (UNEP, 2021). The review emphasizes the economic motive behind the growth of adaptation finance: investment in resilient infrastructure, early warning systems; sustainable farming brings high-economic payoffs and lowers the vulnerability in the long run (GCA, 2019). In addition, the literature identifies the necessity of mechanisms of climate finance, which will be accessible, transparent, and responsive to the interests of the local communities.

The international collaboration, which is the focus of the Paris Agreement and is strengthened by the IMF, the World Bank, and the UNFCCC, is also instrumental to facilitating climate action. Nonetheless, weak governance, diffusion of policy regimes and lack of enforcing measures have curtailed improvement. It is suggested to address free-riding and competitive issues by using border carbon adjustments, climate clubs, and green trade agreements to mitigate them, but they present legal and geopolitical issues (Rodrik, 2020).

On the whole, the international economic policy reaction to climate change is headed in the right direction but with an inappropriate pace and amount that is still not adequate to address the intensity of the climate crisis. An appraisal of the evidence indicates that a combination of powerful carbon pricing, tailored investments in the public sector, innovation rewards, and universal social policies can bring fair and effective climatic results. To realize this, the policy of climate planning should not occur in environmental designs alone but should be applied within the platform of mainstream economic and fiscal planning, as well as design. Other issues, such as more political commitment, popular participation, and international solidarity, are necessary to speed up the changing over to low-carbon and climate-resilient world economy.

5. CONCLUSION

Climate change has been posed as the greatest challenge of the 21st century with widespread implications to the ecosystem, society, and the economy. Its review paper discussed how different economies react to climate change in diverse world perspectives and how this issue is approached through carbon pricing systems, innovation budgets, equity affairs, and climate finance. The literature review has ensured that properly formulated economic policies especially use of carbon taxes, emissions trading system (ETS) and hybrids can considerably curb emission of greenhouse gases without seriously impairing economic performance and employment opportunities. Nevertheless, the general efficiency of these policies is largely preconditioned by their breadth, construction, regulations and acceptance of people.

Besides, climate change should not only focus on mitigation measures, but it should also consider a strong adaption policy, particularly among the developing economies that are at a disadvantaged position. Long-term fat returns are very high when it comes to the adaptation investment, but the flow of international climate finance is inadequate and skewed towards mitigation. Inequalities in the availability to climate finance, the absence of a compliance regime at the international treaties level, and the socio-political costs of resisting climate taxation are yet not overcome. Excitingly, studies point out that redistribution of carbon revenues and the nurture of green innovation will ameliorate not only the effectiveness but also the social acceptability of policies. Finally, climate action needs to be integrated into national development policies and international collaboration, advance in technology, and inclusiveness of policymaking.

6. RECOMMENDATIONS

- I. **Strengthen Carbon Pricing Mechanisms:** Carbon taxes and emissions trading systems are policies that, if adopted or re-enforced by policymakers, must have sufficient levels of price and

extensive coverage on the sectoral basis. The hybrid strategies which incorporate carbon taxes and cap-and-trade mechanisms can be more flexible and efficient.

- II. **Ensure Equity and Revenue Recycling:** Recycling carbon revenues by direct compensation, energy subsidies, or social facilities investments can alleviate the risks of unequal imposition of burden on low-income families. A political and social legitimacy imposes equity-based design.
- III. **Enhance Public Investment in Innovation and Green Infrastructure:** Governments need to spend in clean energy research and development, transport infrastructure, energy-efficient construction and natural-based solutions. These investments are able to provide a boost to the creation of green jobs as well as the pace of low-carbon transitions.
- IV. **Expand Climate Adaptation Finance and Capacity Building:** Developed countries and multilateral institutions need to deliver and surpass the promises of climate finance to aid adaptation in the developing countries. It is essential to simplify the access to climate funding as well as facilitating local-level climate resilience.
- V. **Institutionalize Climate Policy in National Economic Planning:** Climate policy is not supposed to work on a standalone basis but it is supposed to be incorporated in fiscal, industrial and employment policies. Economic development must be placed in line with climate objectives and this calls for cross-sectoral coordination.
- VI. **Foster Global Cooperation and Policy Harmonization:** International coordination is the best method of responding to global issues such as carbon leakage, green trade policies and border carbon adjustments. Collective outcomes can be improved through climate clubs and common platforms of technology.
- VII. **Promote Public Engagement and Climate Literacy:** Climate action must have the support of people. Public trust can be achieved through education drives, participatory politics, and open communication, which prevents and stops the spread of information regarding climate policy costs and benefits.
- VIII. **Monitor, Evaluate, and Adjust Policies Based on Evidence:** Institutions and governments ought to invest in strong monitoring and evaluation systems to determine effectiveness of climate policies. Adaptive policymaking that is empirically based guarantees that there is a continuous improvement.

7. CHALLENGES AND EMERGING RESEARCH DIRECTIONS

The challenges that remain are low carbon price signals on the world scale, lack of consistency when it comes to policy architecture and being susceptible to unintentional consequences. The newspaper Le Monde notes that only a small part of global climate policy achieves what it set out to do: a reduction in emissions- and this is the reason why coherent sets of complements are needed (FT, 2024). The frequent failures are the fraud during the biofuel subsidies and the faulty taxation system that supports fossil fuel (FT, 2025).

The areas of research gaps can be identified as the nature of long-term economic feedbacks and dynamic effects of hybrid systems, the models of adaptation financing, and combining nature-based climate solutions and technological mitigation (FT, 2025). There still is some need to continue econometric analysis, CGE modelling, and sector targeted case studies in economic policy designing.

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