

**ENVIRONMENTAL TRANSACTION COSTS AND SPEED OF ADJUSTMENT TO
TARGET DEBT IN EUROPEAN CARBON EMITTERS**

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Environmental transaction costs and speed of adjustment to target debt in high-carbon European companies

Abstract

This study analyzes how environmental transaction costs affect the speed of adjustment to the target financial debt. Applying GMM on European listed firms over the period 2005-2015, we find that the speed of adjustment is slower for carbon emitters. These results suggest higher transaction costs associated with carbon emissions. However, the effect can be avoided in some cases: larger firms benefit from economies of scale for a large portion of TC; and high-tech firms can optimally integrate TC into their organization. By contrast, regulated firms suffer the negative effect of environmental TC on their financial performance in a stronger way.