

**Sample Response****5 marks**

Market-based policies are pivotal in addressing environmental challenges, using economic incentives rather than direct regulations to promote sustainable practices. Carbon pricing is a prominent example, aiming to reduce greenhouse gas emissions by assigning a monetary cost to carbon output. This approach incentivises industries to adopt cleaner technologies and lower their carbon footprint. Unlike rigid regulatory limits, carbon pricing offers flexibility, allowing businesses to innovate and identify cost-effective solutions for emission reduction. In Australia, carbon pricing was introduced to encourage sustainability and drive investment in renewable energy and energy-efficient practices.

The effectiveness of carbon pricing in Australia is evident from reductions in emissions during its implementation. Industries responded by adopting energy-efficient processes and transitioning toward renewable energy, contributing to both environmental sustainability and economic efficiency. The policy's flexibility was further enhanced by the Emission Trading Scheme (ETS), which allowed companies to trade emission allowances, encouraging cost-effective compliance.

Despite its success, carbon pricing has faced challenges, including political opposition and concerns over its economic impact. Critics argued it could increase costs for businesses and households, potentially reducing competitiveness and slowing economic growth. Addressing these concerns, such as by introducing measures to shield vulnerable industries and consumers, could enhance the policy's acceptability and effectiveness.

In conclusion, carbon pricing represents a powerful market-based tool for managing environmental issues. By leveraging economic mechanisms, it has driven significant reductions in greenhouse gas emissions and encouraged sustainable practices across industries. With refinements to mitigate its economic impacts, carbon pricing could play an even greater role in Australia's strategy for achieving long-term environmental and economic sustainability.

**258 words**