

**Investment Responses to Japanese Tax Reforms:
A Cross-Industry Comparison**

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Abstract

This paper examines the investment responses to Japanese tax reforms in the 1980s and 1990s for individual industries. To identify tax effect, this paper estimates the investment functions using the change in tax-adjusted q caused by tax reform as covariate. This method alleviates the measurement error problem, and valid estimates for the parameter of adjustment cost function can be obtained. Moreover, findings suggest that investments of light industry firms respond to tax reforms more strongly than heavy ones and during the economic slump investment does not respond significantly to tax reforms compared with other ones in the boom period.

Key words: tax reform, investment, tax-adjusted q

JEL classification: E22; H25; H32

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