

Indeterminacy, labor vs capital income taxes and tax schedules with progressive and regressive properties

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Abstract

This paper addresses progressive and regressive tax schedules with respect to labor vs capital income and investigates how the government tax policy influences the minimum values of increasing returns in production leading to indeterminacy, using a finance constrained model as studied in Barnici and Cheron (2001). Unlike the existing literature, the purpose of the present paper is to provide an example that separating labor vs capital income is important in evaluating the government tax policy from the perspective of macroeconomic stability.

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Key words; Belief-driven aggregate fluctuations; Labor and capital income taxes; Progressive and regressive tax schemes; Increasing Returns-to-Scale in Production.
