Tax Effects in a Two-region Model of Monopolistic Competition*

Hajime Takatsuka†

Graduate School of Management, Kagawa University

January 9, 2013

Abstract

I examine how unit tax and ad valorem tax affect firm location in a monopolistic-competition model with asymmetrically sized regions and a quasi-linear preference. Tax revenue is evenly distributed to all workers or evenly distributed to the workers residing in the region generating the tax revenue. When a homogeneous good is traded, despite reimbursement systems, the ad valorem tax retains the firm share, while the unit tax accelerates firm agglomeration in the larger region. When the homogeneous good is non-tradable, despite taxation schemes, the intraregional distribution retains the firm share, while the interregional one accelerates agglomeration in the larger region.

Key words: Unit tax, Ad valorem tax, Monopolistic competition, Firm location.

JEL Classification: R3, L1.

---

*The financial support from Japan Society for the Promotion of Science through Grant-in-Aid for Scientific Research 24530303 is acknowledged.

†`E-mail:takatsuka[at]gsm.kagawa-u.ac.jp`