

Can urban pollution shrink rural districts?

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Abstract

This paper presents analyses of how the externality of environmental damage affects the equilibrium properties of a simple overlapping generations model with multiple regions. Results show that the government's environmental policy decreases capital accumulation. When the government imposes an environmental tax on the urban sector, such a policy decreases the urban population ratio to the rural but increases the total fertility rate.

Key Words: Environmental policy; Capital accumulation; Fertility; Population distribution

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