Health costs, maintenance costs and a tax scheme in an OLG economy[*]

Hiroshi Danbara[†]

Graduate School of Economics, Keio University

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Abstract

In this paper, we introduce the environmental externality into Diamond's (1965) OLG model with production. The environmental externality affects agents' health, and therefore old agents have to pay the health costs. We define the golden rule allocation and a competitive euqilibrium. Then we present an optimal tax scheme to achieve the optimal allocation.

Key words: overlapping generations economy; environmental externality; health costs; optimal tax scheme

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