

# Unit and Ad Valorem Tax Comparisons in the New Keynesian Dynamic Stochastic General Equilibrium Model

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## Abstract

This paper compares unit and ad valorem taxes using the New Keynesian dynamic stochastic general equilibrium model. We find that price stickiness and price markup cause differences between unit and ad valorem taxes. We show that the ad valorem tax increase is equivalent to the unit tax increase under the log-linear setting, even when price stickiness and monopolistic competition are present.

Key words: Unit tax; Ad valorem tax; New Keynesian dynamic stochastic general equilibrium model; Price stickiness

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