Transitional impacts of dividend tax policy in an endogenous growth model.

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Abstract

This paper extends the analysis of Peretto(2007) to the case where R&D for quality improving requires adjustment costs. Due to this specification, the dynamic system alters to the two dimension system. I show that when increases in dividend tax rate cover costs associated with the following each policy, (1) Providing higher rate of tax deduction for R&D to corporate firms; (2) reducing the rate of corporate tax and/or the capital gains tax; or, (3) reducing the rate of labor tax and/or consumption tax; respectively, accelerates growth and raises welfare in the long run and in the short run, also in this setting.

Keywords : Dividends; Endogenous growth; R&D; Transitional dynamics

JEL classification: L16, O31, O41

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