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Quality standards versus nutritional taxes: Health and welfare impacts with strategic firms

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Highlights

- A model to analyze firms' reactions to nutritional policies
- An MQS and a linear excise tax on the low-quality product are welfare increasing
- Taxation of both products is not welfare increasing
- MQS is frequently preferred to a linear excise tax on the low-quality product
- A paternalist social planner prefers imposing an MQS to improving information

Abstract

The goal of this paper is to better understand firms' strategic reactions to nutritional policies targeting food quality improvements and to derive optimal policies. We propose a model of product differentiation, taking into account the taste and health characteristics of products. We study how two firms react to alternative policies: an MQS policy, linear taxation of the two goods on the market, and taxation of the low-quality good. The MQS and the taxation of the low-quality product are the preferred options by a social planner. If taste is moderately important, the MQS policy is chosen by a populist and a paternalist social planner. If taste is a major component of choice, the populist planner chooses to tax the low-quality product whereas the paternalist planner prefers the MQS policy. Finally, for a paternalist social planner, an MQS-based policy always allows for higher levels of welfare than an information policy alone.

Key words: taxation, MQS, product differentiation, strategic pricing, nutritional policy.

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