

Accepted Manuscript

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PII: S1059-0560(17)30338-6

DOI: [10.1016/j.iref.2017.08.010](https://doi.org/10.1016/j.iref.2017.08.010)

Reference: REVECO 1487

To appear in: *International Review of Economics and Finance*

Received Date: 25 April 2017

Revised Date: 17 August 2017

Accepted Date: 21 August 2017

Please cite this article as: Wang W. & Ogawa H., Objectives of governments in tax competition: Role of capital supply elasticity, *International Review of Economics and Finance* (2017), doi: 10.1016/j.iref.2017.08.010.

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**Objectives of Governments in tax competition:
Role of capital supply elasticity**

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Acknowledgments

The research has been supported by grants from National Natural Science Foundation of China (Nos. 71501067, 71671062) and Japan Society for the Promotion of Science (Nos. 15H03366, 17H02533).

Abstract

This study examines the choice of governments' policy objectives in tax competition with an endogenous capital supply. Our results confirm the following scenarios. (i) The welfare-maximizing region completely deviates from its primary goal and maximizes tax revenue when the capital supply elasticity, with respect to the interest rate, is low. (ii) The welfare-maximizing region pursues its primary goal and moderately maximizes welfare when the capital supply elasticity is high. In case (ii), the extent of welfare maximization orientation increases with the capital supply elasticity.

Keywords: tax competition; endogenous capital supply; policy objective.

JEL classification: H30, H87.

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