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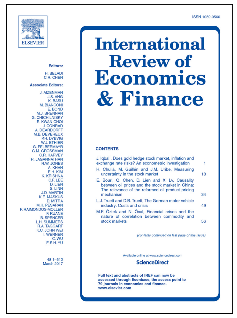

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Objectives of Governments in tax competition: Role of capital supply elasticity

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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.