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PII: S0166-0462(16)30322-2
DOI: <https://doi.org/10.1016/j.regsciurbeco.2017.11.004>
Reference: REGEC3314

To appear in: *Regional Science and Urban Economics*

Received date: 18 November 2016
Revised date: 6 November 2017
Accepted date: 17 November 2017

Cite this article as: Thomas Eichner and Rüdiger Pethig, **Competition in emissions standards and capital taxes with local pollution**, *Regional Science and Urban Economics*, <https://doi.org/10.1016/j.regsciurbeco.2017.11.004>

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Competition in emissions standards and capital taxes with local pollution^{*}

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Abstract

This paper analyzes the competition in emissions standards and capital taxes when production causes local pollution and large jurisdictions act strategically. It is shown that emissions standard competition both with and without capital tax competition results in inefficient outcomes. The more productive jurisdiction imports capital and sets inefficiently tight emissions standards, whereas the less productive jurisdiction chooses inefficiently lax emissions standards. Adding capital tax competition improves local pollution, but exacerbates the capital distortion and the efficiency loss of emissions standard competition.

JEL classification: H23, H41, Q58

Key words: emissions standard, capital tax, local pollution, tax competition

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