

Bucovetsky, Sam; Haufler, Andreas

Working Paper

Preferential tax regimes with asymmetric countries

CESifo Working Paper, No. 1846

Provided in Cooperation with:

Ifo Institute – Leibniz Institute for Economic Research at the University of Munich

Suggested Citation: Bucovetsky, Sam; Haufler, Andreas (2006) : Preferential tax regimes with asymmetric countries, CESifo Working Paper, No. 1846, Center for Economic Studies and ifo Institute (CESifo), Munich

This Version is available at:

<https://hdl.handle.net/10419/25891>

Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

Terms of use:

Documents in EconStor may be saved and copied for your personal and scholarly purposes.

You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.

If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.

PREFERENTIAL TAX REGIMES WITH ASYMMETRIC COUNTRIES

SAM BUCOVETSKY
ANDREAS HAUFLER

CESIFO WORKING PAPER NO. 1846
CATEGORY 1: PUBLIC FINANCE
NOVEMBER 2006

An electronic version of the paper may be downloaded

- *from the SSRN website:* www.SSRN.com
- *from the RePEc website:* www.RePEc.org
- *from the CESifo website:* www.CESifo-group.de

PREFERENTIAL TAX REGIMES WITH ASYMMETRIC COUNTRIES

Abstract

Current policy initiatives taken by the EU and the OECD aim at abolishing preferential corporate tax regimes. This note extends Keen's (2001) analysis of symmetric capital tax competition under preferential (or discriminatory) and non-discriminatory tax regimes to allow for countries of different size. Even though size asymmetries imply a redistribution of tax revenue from the larger to the smaller country, a non-discrimination policy is found to have similar effects as in the symmetric model: it lowers the average rate of capital taxation and thus makes tax competition more aggressive in both the large and the small country.

JEL Code: H73, H25.

Keywords: corporate taxation, preferential tax regimes.

Sam Bucovetsky
Department of Economics
York University
4700 Keele Street
Toronto, Ontario M3J1P3
Canada
sam@dept.econ.yorku.ca

Andreas Haufler
Department of Economics
University of Munich
Akademiestr. 1/II
80799 Munich
Germany
Andreas.Haufler@lrz.uni-muenchen.de

October 2006

1 Introduction

One of the main current policy issues in corporate taxation is the abolition of preferential tax regimes. Many countries grant tax preferences to foreign-based multinational firms in order to attract internationally mobile tax bases, while simultaneously maintaining a higher effective rate of taxation for less mobile domestic firms.¹ This practice of ‘ring-fencing’ the domestic tax base has come under heavy attack from both the OECD and the European Commission. The OECD (1998, 2000) has issued a blacklist of predominantly small tax havens, which have been induced to discontinue granting specific tax preferences to foreign-based multinational firms. At the same time, the European Union has identified a total of 66 discriminatory measures, mostly taken by small EU countries and associated territories, which are to be phased out by 2008 (Primarolo Report, 1999).

From a theoretical point of view it is unclear, however, whether these measures are indeed desirable from a global economic efficiency perspective. In particular, it is feared that overall tax competition might be intensified when countries are forced to abolish tax preferences, which are primarily targeted at multinational firms. This is most clearly expressed in the analysis of Keen (2001), who shows that when two symmetric countries compete for two different tax bases, both of which are internationally mobile (albeit to a different degree), the restriction to employ a single tax rate on both tax bases will unambiguously reduce tax revenues in each country. Later work has qualified Keen’s result and has shown that a ban on tax preferences need not be revenue-reducing if either the size of the two tax bases is not given for the two countries taken together (Janeba and Smart, 2003), or if investors in each country exhibit a home bias (Haupt and Peters, 2005).² Nevertheless, Keen’s result is still a forceful one.

All the above-mentioned contributions assume, however, that the two competing coun-

¹The reduced tax burden of multinational firms is documented in a recent study by Hines (2005). Using firm-specific data from the U.S. Bureau of Economic Analysis, Hines shows (Table 1) that the effective profit tax burden of U.S.-based multinationals has, on average, fallen more strongly since the 1980s than the nominal corporate income tax rates of the host countries. This finding indicates either that U.S. multinationals have benefitted from discriminatory tax breaks or that they have been able to shift profits to tax havens (or a combination of both).

²Recently, Bucovetsky and Haufler (2006) have considered a model where firms can invest in a multinational structure that allows them to benefit from tax preferences. In this setting the welfare effects of restricting tax preferences depend critically on the elasticity with which firms change their organizational form in response to tax incentives.

tries are identical in all respects.³ Given the evidence that preferential tax regimes are primarily used by small countries this is clearly an important restriction. A well-known result from the literature on asymmetric tax competition for a single tax base is that small countries will undercut their larger neighbors, and may even be better off under tax competition as compared to a situation where countries can fully coordinate their tax rates (Bucovetsky, 1991; Wilson, 1991; Kanbur and Keen, 1993).⁴ It is thus a natural question to ask whether large countries - the principal supporters of the policy initiatives referred to above - may gain from the abolition of tax preferences, by restricting the ability of small countries to compete with them on unequal terms.

In this short paper we combine Keen's (2001) analysis of discriminatory vs. non-discriminatory tax competition with the analysis of tax competition between countries of different size. We show that the smaller country unambiguously has lower tax rates, but higher per-capita tax revenue, under either restricted or unrestricted tax competition. However, imposing a non-discrimination constraint hurts not only the small country, but also the large one. Hence Keen's (2001) result turns out to be robust with respect to the introduction of size asymmetries between countries.

2 The model with differentiated taxation

We consider two countries $i \in \{A, B\}$ which compete over two capital tax bases. The share of country i in the world population is s^i and, by convention, we let country A be the smaller of the two countries (so that $s^A \leq 0.5$ and $s^B \geq 0.5$). There are two distinct capital tax bases $n \in \{1, 2\}$, which differ in their degree of international mobility. One interpretation is that the first base captures the profits of large, multinational firms, which can easily shift profits across countries, whereas the second base represents

³An exception is the early analysis by Janeba and Peters (1999), which assumes that countries differ in the size of their (completely immobile) domestic tax base while competing for a second tax base that is perfectly mobile internationally. In this model there is no symmetric equilibrium in pure strategies. There exists, however, a symmetric equilibrium in mixed strategies that is analyzed by Wilson (2005). Wilson shows that whenever the domestic tax base has some degree of international mobility, the abolition of tax preferences reduces expected revenue, in line with the result in Keen (2001).

⁴See Wilson (1999) for a survey. More recently, Hong and Smart (2005) and Slemrod and Wilson (2006) have evaluated the effects that the presence of small tax havens has on global welfare, with opposite conclusions being reached in the two analyses.

the profits of smaller firms, which can invest abroad but have fewer possibilities for international profit shifting. The aggregate supply of each capital tax base is fixed. Each type of capital is combined with sector-specific labor that is immobile across countries. The smaller country A has the same share of workers in each sector; hence s^i bears no subscript. Shares sum to unity, $s^A + s^B = 1$. We employ the per-capita notation that is customary in the analysis of countries of different size and let k_n^i denotes the per-capita employment of the capital base n in country i . Hence market clearing for both types of capital implies

$$s^A k_n^A + s^B k_n^B = \bar{k}_n \quad \forall n \in \{1, 2\}. \quad (1)$$

where \bar{k}_n is the fixed supply of tax base n . To arrive at reduced-form expressions in our analysis we assume that the production functions in both sectors $n \in \{1, 2\}$ are quadratic. The production functions differ across sectors but, for each sector, are the same across countries. Per-capita production in country i and in sector n is $f_n^i = a_n k_n^i - 0.5 b_n (k_n^i)^2$, leading to linear marginal productivity conditions for each type of capital

$$\frac{\partial f_n^i}{\partial k_n^i} = a_n - b_n k_n^i \quad \forall i \in \{A, B\}, n \in \{1, 2\}. \quad (2)$$

The slope parameter b_n may differ between tax bases.

Following a standard procedure in the literature, we assume that taxes are levied as source-based unit taxes on capital. Without loss of generality, we impose as well the normalization on units of quantity that

$$a_1 - b\bar{k}_1 = a_2 - b\bar{k}_2. \quad (3)$$

Together with the assumption of quadratic technologies, this normalization ensures that equal *unit* taxes on each type of capital are equivalent to equal *ad valorem* tax rates. From (2), net-of-tax arbitrage by internationally mobile investors implies

$$t_n^B - t_n^A = b_n (k_n^A - k_n^B) \quad \forall n \in \{1, 2\}. \quad (4)$$

Using (1) in (4) we can derive per-capita tax bases in each country as a function of the two tax rates

$$k_n^i = \bar{k}_n + \frac{(1 - s^i)}{b_n} (t^j - t^i) \quad \forall i, j \in \{A, B\}, i \neq j, n \in \{1, 2\}. \quad (5)$$

Differentiating k_n^i in (5) with respect to t^i shows that the response of either capital tax base to a tax change is larger, in per-capita terms, for the smaller country A . From (5),

the net return to capital of type n , $r_n = f'(k_n^A) - t_n^A = f'(k_n^B) - t_n^B$ must be

$$r_n = a_n - b_n \bar{k}_n - s^A t_n^A - s^B t_n^B .$$

As in Keen (2001), governments are assumed to maximize tax revenues. In the benchmark case, each government is allowed to levy differentiated tax rates (subscript D) on the different capital tax bases. Hence each government maximizes

$$T_D^i = t_1^i k_1^i + t_2^i k_2^i \quad \forall i \in \{A, B\}. \quad (6)$$

Substituting capital tax bases from (5) and differentiating with respect to t_n^i yields Nash equilibrium tax rates in reduced form

$$t_n^{A*} = \frac{b_n \bar{k}_n (1 + s^A)}{3s^A s^B}, \quad t_n^{B*} = \frac{b_n \bar{k}_n (1 + s^B)}{3s^A s^B} \quad \forall n. \quad (7)$$

In each country, the tax rate on tax base n , expressed as a fraction of its gross return, will be proportional to the elasticity of that return with respect to the supply of capital. The “more mobile” tax base is the one for which $b_n \bar{k}_n$ is lower, implying a greater sensitivity of capital supply to its net return. Moreover, the equilibrium tax rates show that the smaller country (country A) levies the lower tax rate on each tax base n . Finally, and importantly, it follows from (7) that the large and the small country choose the same *ratio* of tax rates, t_1^i/t_2^i , and hence grant the same relative tax advantage to the more mobile type of capital.

In equilibrium

$$k_n^i = \left[1 + \frac{(s^j - s^i)(1 - s^i)}{3s^A s^B} \right] \bar{k}_n \quad \forall i, j \in \{A, B\}, i \neq j, n \in \{1, 2\}, \quad (8)$$

implying that country i gets the same share of each tax base, with the smaller country getting the larger share.

Substituting the optimal non-cooperative tax rates (7) along with the tax base expressions (8) in the objective function (6) gives optimized per-capita tax revenue in each country when tax rates can be differentiated:

$$T_D^{A*} = \frac{(1 + s^A)^2}{9(s^A)^2 s^B} (b_1 \bar{k}_1^2 + b_2 \bar{k}_2^2), \quad T_D^{B*} = \frac{(1 + s^B)^2}{9s^A (s^B)^2} (b_1 \bar{k}_1^2 + b_2 \bar{k}_2^2). \quad (9)$$

Comparing the two expressions in (9) gives

$$T_D^{A*} - T_D^{B*} = \frac{b_1 \bar{k}_1^2 + b_2 \bar{k}_2^2}{9(s^A)^2 (s^B)^2} [(s^B)^3 - (s^A)^3] > 0. \quad (10)$$

Hence, per-capita tax revenue is higher in the smaller country. This corresponds to the well-known result that the small country achieves a higher welfare level in the Nash equilibrium than its larger neighbor (Bucovetsky, 1991; Wilson, 1991).

3 Introducing a non-discrimination constraint

We now consider the case where each country must levy a uniform tax rate (subscript U) on the two capital tax bases. This captures the constraint that tax preferences for the more mobile type of capital are abolished, while leaving each country full autonomy over its own overall level of capital taxation. The objective function changes to

$$T_U^i = t^i (k_1^i + k_2^i) \quad \forall i. \quad (11)$$

Tax bases are again given by (5). Substituting into (11) and differentiating with respect to t^i yields uniform Nash equilibrium tax rates

$$t_U^{A*} = \frac{b_1 b_2 (\bar{k}_1 + \bar{k}_2) (1 + s^A)}{3 s^A s^B (b_1 + b_2)}, \quad t_U^{B*} = \frac{b_1 b_2 (\bar{k}_1 + \bar{k}_2) (1 + s^B)}{3 s^A s^B (b_1 + b_2)}. \quad (12)$$

Again, the smaller country A chooses the lower tax rate in equilibrium.

Substituting each country's non-cooperative tax rate (12) and (5) into (11) gives optimized per-capita tax revenue in each country in the non-discriminatory tax regime:

$$T_U^{A*} = \frac{b_1 b_2 (\bar{k}_1 + \bar{k}_2)^2 (1 + s^A)^2}{9 (s^A)^2 s^B (b_1 + b_2)}, \quad T_U^{B*} = \frac{b_1 b_2 (\bar{k}_1 + \bar{k}_2)^2 (1 + s^B)^2}{9 s^A (s^B)^2 (b_1 + b_2)}. \quad (13)$$

Comparing the two expressions in (13) shows that per-capita tax revenue is again higher in the smaller country:

$$T_U^{A*} - T_U^{B*} = \frac{b_1 b_2 (\bar{k}_1 + \bar{k}_2)^2}{9 (s^A)^2 (s^B)^2 (b_1 + b_2)} (s^B - s^A) (1 - s^A s^B) > 0. \quad (14)$$

The core question is whether tax revenues in each country are raised or lowered when the non-discrimination rule is introduced. In contrast to the symmetric case, we must also consider the possibility that one country gains, but the other country loses from the constraint to set a uniform tax rate on both capital tax bases. Forming the difference between optimized tax revenue in the two different scenarios gives:

$$T_D^{A*} - T_U^{A*} = \frac{(1 + s^A)^2}{9 (s^A)^2 s^B} \Omega, \quad T_D^{B*} - T_U^{B*} = \frac{(1 + s^B)^2}{9 s^A (s^B)^2} \Omega, \quad (15)$$

where the common factor Ω is given by

$$\Omega = \frac{(b_1 \bar{k}_1 - b_2 \bar{k}_2)^2}{(b_1 + b_2)} \geq 0.$$

This expression must be non-negative, and will equal zero only if $b_1 \bar{k}_1 = b_2 \bar{k}_2$. As in Keen (2001), the uniformity constraint will not affect tax revenues if both tax bases

are equally mobile, so that no preferences arise in the unconstrained equilibrium. Otherwise, *both* countries lose from the non-discrimination constraint and Keen’s finding generalizes to the case where countries differ in size. To understand the intuition for this result, it is useful to start with the benchmark case of symmetric countries. In this case both countries raise the tax rate on the more mobile base due to the non-discrimination constraint, but also reduce the tax rate on the less mobile base, relative to the case of differentiated tax setting. As the tax rate on the more mobile base is increased, it becomes more attractive to compete for this base.⁵ Hence tax competition will be intensified, on average, and the uniform tax rate will be below the (arithmetic) average of the differentiated tax rates.⁶

This reasoning continues to hold when countries differ in size. Recall from (7) that, if tax discrimination is allowed, the *ratio* of tax rates t_1^i/t_2^i and thus the degree of tax discrimination is the same in both countries. Therefore, the restriction to impose a uniform tax rate will affect both countries symmetrically. Revenue changes are thus solely determined by the adjustment in the *average* rate of capital taxation and equilibrium tax revenue will fall in both countries as a result of the non-discrimination constraint.

4 Conclusion

In this note we have extended Keen’s (2001) analysis of symmetric tax competition under discriminatory and non-discriminatory tax regimes to allow for size differences between countries. In both regimes the well-known result reappears that the smaller country levies lower tax rates than its larger neighbor and a redistribution of tax revenues occurs, in the Nash equilibrium, from the larger to the smaller country. Nevertheless, a non-discrimination policy will have similar effects as in the symmetric model: it reduces the average level of capital taxation and thus tax revenues in both countries.

This result is relevant for the non-discrimination policies enacted at the OECD and EU levels, which are primarily targeted at the tax practices of small countries and territories. It reinforces the warning that such partial coordination policies can be welfare-reducing when countries are free to set (uniform) tax rates independently. It

⁵See Janeba and Smart (2003, p. 266), who term this the ‘strategic effect’ of the restriction.

⁶This follows directly from (15) and the fact that the aggregate tax base $k_1^i + k_2^i$ is the same for each country in the discriminatory and non-discriminatory regimes. The proof is available from the authors upon request.

should be emphasized, however, that our findings do not invalidate the arguments raised in the literature in favor of a ban on tax discrimination (see Janeba and Smart, 2003; Haupt and Peters, 2005; Bucovetsky and Haufler, 2006). Instead the main purpose of our analysis has been to show that the symmetry assumption used in much of this literature is perhaps less crucial than first intuition may suggest.

References

- Bucovetsky, S. (1991), Asymmetric tax competition. *Journal of Urban Economics* 30, 167-181.
- Bucovetsky, S. and A. Haufler (2006), Tax competition when firms choose their organizational form: Should tax loopholes for multinationals be closed? Revised, York University and University of Munich.
- Haupt, A. and W. Peters (2005), Restricting preferential tax regimes to avoid harmful tax competition. *Regional Science and Urban Economics* 35, 493-507.
- Hines, J.R. (2005), Corporate taxation and international competition. *Ross School of Business Paper 1026*. University of Michigan.
- Hong, Q. and M. Smart (2005), In praise of tax havens: International tax planning and foreign direct investment. Mimeo, University of Toronto.
- Kanbur, R. and M. Keen (1993), Jeux sans frontières: Tax competition and tax coordination when countries differ in size. *American Economic Review* 83, 877-892.
- Janeba, E. and W. Peters (1999), Tax evasion, tax competition and the gains from nondiscrimination: The case of interest taxation in Europe. *The Economic Journal* 109, 93-101.
- Janeba, E. and M. Smart (2003), Is targeted tax competition less harmful than its remedies? *International Tax and Public Finance* 10, 259-280.
- Keen, M. (2001), Preferential regimes can make tax competition less harmful. *National Tax Journal* 54, 757-762.
- OECD (1998), Harmful tax competition: An emerging global issue. Paris.
- OECD (2000), Towards global tax co-operation. Progress in identifying and eliminating harmful tax practices. Paris
- Primarolo Report (1999), Report from the Code of Conduct Group to the ECOFIN Council. Brussels, 29 November 1999.
- Slemrod, J.B. and J.D. Wilson (2006), Tax competition and parasitic tax havens. *NBER Working Paper No. W12225*.

- Wilson, J.D. (1991), Tax competition with interregional differences in factor endowments. *Regional Science and Urban Economics* 21, 423-451.
- Wilson, J.D. (1999), Theories of tax competition. *National Tax Journal* 52, 269-304.
- Wilson, J.D. (2005), Tax competition with and without preferential treatment of a highly-mobile base. In: J. Alm, J. Martinez-Vazquez and M. Rider (eds.), *The challenges of tax reform in a global economy*, 193-206. Springer.

CESifo Working Paper Series

(for full list see www.cesifo-group.de)

- 1784 Paolo M. Panteghini, A Simple Explanation for the Unfavorable Tax Treatment of Investment Costs, August 2006
- 1785 Alan J. Auerbach, Why have Corporate Tax Revenues Declined? Another Look, August 2006
- 1786 Hideshi Itoh and Hodaka Morita, Formal Contracts, Relational Contracts, and the Holdup Problem, August 2006
- 1787 Rafael Lalive and Alejandra Cattaneo, Social Interactions and Schooling Decisions, August 2006
- 1788 George Kapetanios, M. Hashem Pesaran and Takashi Yamagata, Panels with Nonstationary Multifactor Error Structures, August 2006
- 1789 Torben M. Andersen, Increasing Longevity and Social Security Reforms, August 2006
- 1790 John Whalley, Recent Regional Agreements: Why so many, why so much Variance in Form, why Coming so fast, and where are they Headed?, August 2006
- 1791 Sebastian G. Kessing and Kai A. Konrad, Time Consistency and Bureaucratic Budget Competition, August 2006
- 1792 Bertil Holmlund, Qian Liu and Oskar Nordström Skans, Mind the Gap? Estimating the Effects of Postponing Higher Education, August 2006
- 1793 Peter Birch Sørensen, Can Capital Income Taxes Survive? And Should They?, August 2006
- 1794 Michael Kosfeld, Akira Okada and Arno Riedl, Institution Formation in Public Goods Games, September 2006
- 1795 Marcel Gérard, Reforming the Taxation of Multijurisdictional Enterprises in Europe, a Tentative Appraisal, September 2006
- 1796 Louis Eeckhoudt, Béatrice Rey and Harris Schlesinger, A Good Sign for Multivariate Risk Taking, September 2006
- 1797 Dominique M. Gross and Nicolas Schmitt, Why do Low- and High-Skill Workers Migrate? Flow Evidence from France, September 2006
- 1798 Dan Bernhardt, Stefan Krasa and Mattias Polborn, Political Polarization and the Electoral Effects of Media Bias, September 2006

- 1799 Pierre Pestieau and Motohiro Sato, Estate Taxation with Both Accidental and Planned Bequests, September 2006
- 1800 Øystein Foros and Hans Jarle Kind, Do Slotting Allowances Harm Retail Competition?, September 2006
- 1801 Tobias Lindhe and Jan Södersten, The Equity Trap, the Cost of Capital and the Firm's Growth Path, September 2006
- 1802 Wolfgang Buchholz, Richard Cornes and Wolfgang Peters, Existence, Uniqueness and Some Comparative Statics for Ratio- and Lindahl Equilibria: New Wine in Old Bottles, September 2006
- 1803 Jan Schnellenbach, Lars P. Feld and Christoph Schaltegger, The Impact of Referendums on the Centralisation of Public Goods Provision: A Political Economy Approach, September 2006
- 1804 David-Jan Jansen and Jakob de Haan, Does ECB Communication Help in Predicting its Interest Rate Decisions?, September 2006
- 1805 Jerome L. Stein, United States Current Account Deficits: A Stochastic Optimal Control Analysis, September 2006
- 1806 Friedrich Schneider, Shadow Economies and Corruption all over the World: What do we really Know?, September 2006
- 1807 Joerg Lingers and Klaus Waelde, Pareto-Improving Unemployment Policies, September 2006
- 1808 Axel Dreher, Jan-Egbert Sturm and James Raymond Vreeland, Does Membership on the UN Security Council Influence IMF Decisions? Evidence from Panel Data, September 2006
- 1809 Prabir De, Regional Trade in Northeast Asia: Why do Trade Costs Matter?, September 2006
- 1810 Antonis Adam and Thomas Moutos, A Politico-Economic Analysis of Minimum Wages and Wage Subsidies, September 2006
- 1811 Guglielmo Maria Caporale and Christoph Hanck, Cointegration Tests of PPP: Do they also Exhibit Erratic Behaviour?, September 2006
- 1812 Robert S. Chirinko and Hisham Foad, Noise vs. News in Equity Returns, September 2006
- 1813 Oliver Huelsewig, Eric Mayer and Timo Wollmershaeuser, Bank Behavior and the Cost Channel of Monetary Transmission, September 2006
- 1814 Michael S. Michael, Are Migration Policies that Induce Skilled (Unskilled) Migration Beneficial (Harmful) for the Host Country?, September 2006

- 1815 Eytan Sheshinski, Optimum Commodity Taxation in Pooling Equilibria, October 2006
- 1816 Gottfried Haber and Reinhard Neck, Sustainability of Austrian Public Debt: A Political Economy Perspective, October 2006
- 1817 Thiess Buettner, Michael Overesch, Ulrich Schreiber and Georg Wamser, The Impact of Thin-Capitalization Rules on Multinationals' Financing and Investment Decisions, October 2006
- 1818 Eric O'N. Fisher and Sharon L. May, Relativity in Trade Theory: Towards a Solution to the Mystery of Missing Trade, October 2006
- 1819 Junichi Minagawa and Thorsten Upmann, Labor Supply and the Demand for Child Care: An Intertemporal Approach, October 2006
- 1820 Jan K. Brueckner and Raquel Girvin, Airport Noise Regulation, Airline Service Quality, and Social Welfare, October 2006
- 1821 Sijbren Cnossen, Alcohol Taxation and Regulation in the European Union, October 2006
- 1822 Frederick van der Ploeg, Sustainable Social Spending in a Greying Economy with Stagnant Public Services: Baumol's Cost Disease Revisited, October 2006
- 1823 Steven Brakman, Harry Garretsen and Charles van Marrewijk, Cross-Border Mergers & Acquisitions: The Facts as a Guide for International Economics, October 2006
- 1824 J. Atsu Amegashie, A Psychological Game with Interdependent Preference Types, October 2006
- 1825 Kurt R. Brekke, Ingrid Koenigbauer and Odd Rune Straume, Reference Pricing of Pharmaceuticals, October 2006
- 1826 Sean Holly, M. Hashem Pesaran and Takashi Yamagata, A Spatio-Temporal Model of House Prices in the US, October 2006
- 1827 Margarita Katsimi and Thomas Moutos, Inequality and the US Import Demand Function, October 2006
- 1828 Eytan Sheshinski, Longevity and Aggregate Savings, October 2006
- 1829 Momi Dahan and Udi Nisan, Low Take-up Rates: The Role of Information, October 2006
- 1830 Dieter Urban, Multilateral Investment Agreement in a Political Equilibrium, October 2006
- 1831 Jan Bouckaert and Hans Degryse, Opt In Versus Opt Out: A Free-Entry Analysis of Privacy Policies, October 2006

- 1832 Wolfram F. Richter, Taxing Human Capital Efficiently: The Double Dividend of Taxing Non-qualified Labour more Heavily than Qualified Labour, October 2006
- 1833 Alberto Chong and Mark Gradstein, Who's Afraid of Foreign Aid? The Donors' Perspective, October 2006
- 1834 Dirk Schindler, Optimal Income Taxation with a Risky Asset – The Triple Income Tax, October 2006
- 1835 Andy Snell and Jonathan P. Thomas, Labour Contracts, Equal Treatment and Wage-Unemployment Dynamics, October 2006
- 1836 Peter Backé and Cezary Wójcik, Catching-up and Credit Booms in Central and Eastern European EU Member States and Acceding Countries: An Interpretation within the New Neoclassical Synthesis Framework, October 2006
- 1837 Lars P. Feld, Justina A.V. Fischer and Gebhard Kirchgaessner, The Effect of Direct Democracy on Income Redistribution: Evidence for Switzerland, October 2006
- 1838 Michael Rauscher, Voluntary Emission Reductions, Social Rewards, and Environmental Policy, November 2006
- 1839 Vincent Vicard, Trade, Conflicts, and Political Integration: the Regional Interplays, November 2006
- 1840 Erkki Koskela and Mikko Puhakka, Stability and Dynamics in an Overlapping Generations Economy under Flexible Wage Negotiation and Capital Accumulation, November 2006
- 1841 Thiess Buettner, Michael Overesch, Ulrich Schreiber and Georg Wamser, Taxation and Capital Structure Choice – Evidence from a Panel of German Multinationals, November 2006
- 1842 Guglielmo Maria Caporale and Alexandros Kontonikas, The Euro and Inflation Uncertainty in the European Monetary Union, November 2006
- 1843 Jan K. Brueckner and Ann G. Largey, Social Interaction and Urban Sprawl, November 2006
- 1844 Eytan Sheshinski, Differentiated Annuities in a Pooling Equilibrium, November 2006
- 1845 Marc Suhrcke and Dieter Urban, Are Cardiovascular Diseases Bad for Economic Growth?, November 2006
- 1846 Sam Bucovetsky and Andreas Haufler, Preferential Tax Regimes with Asymmetric Countries, November 2006