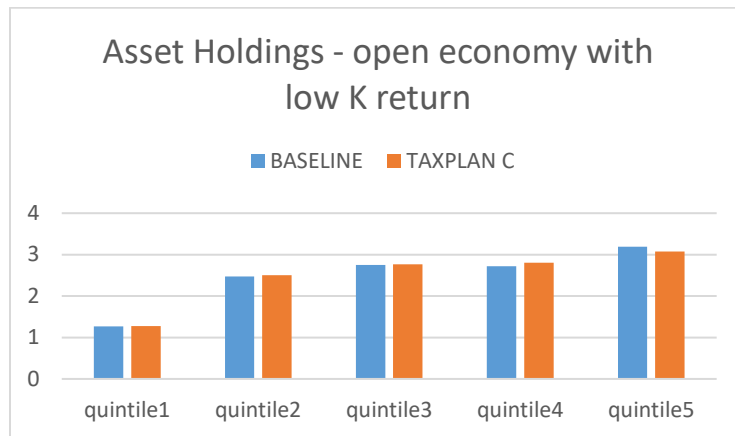


Delta Discoveries

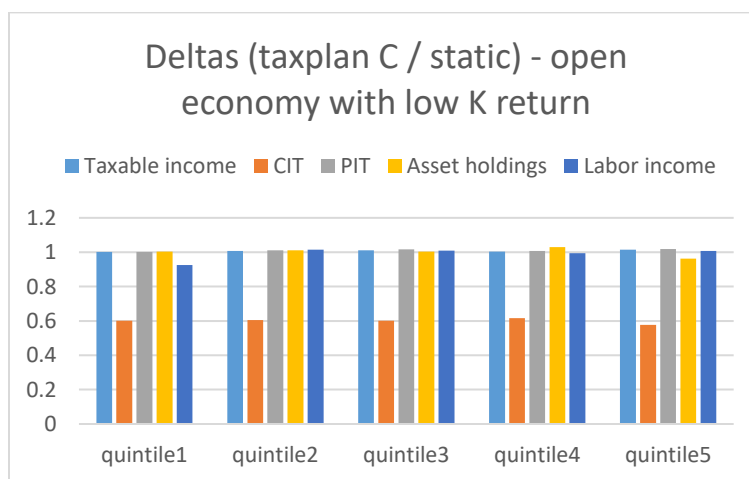
1. Why aren't the distributions of asset holdings and CIT as progressive as we would have thought?

Recall we fixed the quintiles according to households' taxable income and, as a consequence, retirees with large asset holdings (but no labor income) might fall in a low quintile. They drive the asset holdings/CIT of low quintiles up.



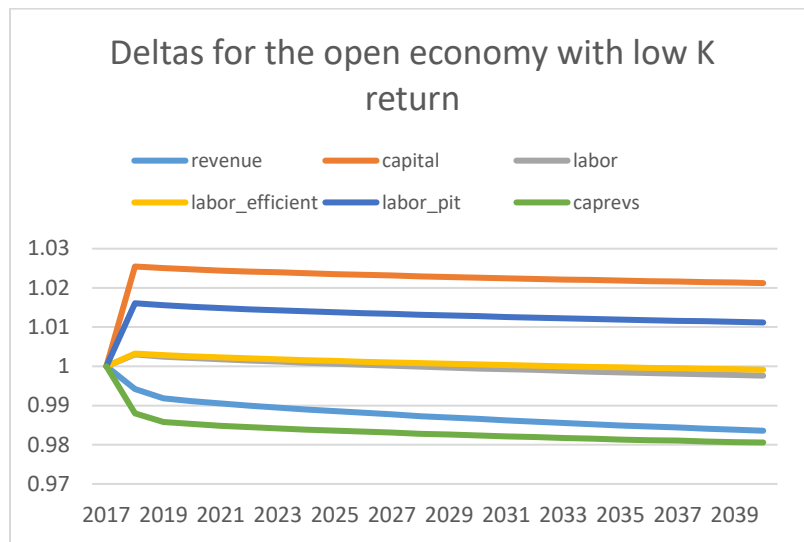
2. Why is the delta for CIT (for all quintiles) so low?

We compute static variables holding prices fixed and the 'effective capital return rate', that is, capital return rate minus expensing subsidies, decreases around 60% in the counterfactual economy with respect to the static economy (for the open economy with low capital return). This price effect, part of the dynamic effect, reduces CIT (and capital revenues) even though total capital in the economy goes up.



3. Why does total tax revenues decrease in the open economy with low capital return?

Due to the dynamic effect mentioned in item 2, we have a reduction of capital revenues that drives total revenues down.



4. Why do labor income and GDP percentage changes differ in the closed economies?

Convergence error. In the closed economy code, we use capital-labor ratio guesses so they don't necessarily equal capital-labor ratio in the model (our tolerance parameter right now is $1e-3$). In the open economy, capital-labor ratio is set by closed form conditions, so the difference in that case is a numerical error.