

# Effects of taxation on capital accumulation

University of Chicago Press - Income Taxation and Capital Accumulation on JSTOR

## Problem Two - Short run Analysis of Labour Demand

Suppose that a firm's production function is  $Q = \sqrt{K} + N$  where  $K$  is capital and  $N$  is units of labour in thousands. Currently,  $K = 1$  and  $r = \$5$  per unit. The market labour supply is given by  $W = 4N$ . Assume that the output is sold in a perfectly competitive market at a per-unit price of \$2. (Round up your answers to two decimals.)

Assume that the firm's wage is determined in a perfectly competitive labour market.

- Write down the marginal product of labour and derive the short-run labour demand.
- Calculate the equilibrium wage and employment levels.
- Suppose that the wage rate decreases. Without any calculation, briefly explain the role of substitution and scale effects in the firm's adjustment of labour. (Hint: This is short-run where capital is fixed.)

Now suppose that the firm is a monopolist. Firm's marginal cost of labour is  $MC = rN$ .

- Derive the equation for the value of the marginal product of labour. Calculate the resulting wage and employment levels.
- Calculate the size of the vacancy gap.
- Directly compare possible effects of a minimum wage on employment in labour markets characterized by both perfect competition and monopsony. In the graph in part (b), clearly and clearly illustrate that a minimum wage may have opposite outcomes in these two labour markets.

Description: -

- Saving and investment.

Taxation.Effects of taxation on capital accumulation

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## CiteSeerX — The Effect of Capital Taxation on Capital Accumulation and Welfare

Thus, it is necessary to decrease the weight of capital gains when inferring the gains from the sale of C corporation stock. And even if progressive taxation made sense, rather than adding a wealth tax or raising tax rates, a better approach would be to end current breaks for the wealthy that distort the economy, such as the income tax exemption for municipal bond interest. Instead, that investment is made up for by foreign financial inflows.

## Taxes on Capital and Capital Accumulation

We estimate that in the long run, wealth in the United States would be permanently reduced 7. In countries that have had wealth taxes, the public has not perceived the actual operation to be fair. An Internal Revenue Service IRS study found that wealth valuation from estate tax returns are on average only 50 percent of the valuation from the Forbes 400 list.

**The effects of taxation on capital accumulation, edited by Martin Feldstein. Chicago, IL: The University of Chicago Press, 1987, 495pp. NPA cloth, Journal of Policy Analysis and Management**

It cannot be neglected that the tax avoidance and evasion rates for the wealth tax tend to increase as the wealth tax rate increases, which has been revealed in an empirical study of the wealth tax in Switzerland. However, wealth taxes differ from taxes on capital income because the tax amount is not related to the actual return. Such a wealth tax would reduce employment by 2 percent and GDP by 5 percent in the long run.

## CiteSeerX — The Effect of Capital Taxation on Capital Accumulation and Welfare

To project the tax revenue over the next years, both the SCF and Forbes wealth data are inflated to the nominal value for the next 10 years using the Congressional Budget Office projections of GDP growth. A 2010 study by Asa Hansson examined the relationship between wealth taxes and economic growth across 20 OECD countries from 1980 to 1999. The logic provided by such a theory is that capital accumulation represents the profits earned by businesses that are usually reinvested by such businesses which lead to wealth accumulation by the wealthy.

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