Imperfect Competition and Optimal Taxation

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Overview

- Nice paper with interesting results. I enjoyed reading it.

- Analyzes optimal Ramsey policy in models with endogenous firm entry and various forms of imperfect competition.

Competition Entry costs	Monopolistic competition in price	Bertrand	Cournot
Fixed	Coto-Martinez et al (2007)		
Cyclical	Chugh and Ghironi (2011)		

- Lewis (2010) studies oligopolistic competition, but static.

Mechanisms

- Entry costs: discourage firm entry.
- Imperfect competition: those that enter make bigger profits, encourages entry.

- Both distortions affect the intratemporal margin.
- Policy trying to correct for these two distortions.

Characterizes:

- Laisez-faire market equilibria.
- First best (efficient allocation).
- Ramsey optimal policies (linear tax on labor and firm profits).

Focuses on comparing Ramsey policies in different environments.

Ramsey Policies Results

- Labor distortion remains.
- Entry distortion corrected by dividend tax.

- Novelty of this paper:
  - Size of dividend tax decreases with the degree of competition.
  - Comment: Should provide good economic intuition.

Comments

- Compare optimal Ramsey polices to first best and current polices (data).

- What are the welfare consequences? Does Ramsey get close to first best? How bad is current policy?

- Can first best be implemented in a market environment? If so, what instruments are needed?

Further Comments 1

- Is this model exactly equivalent to a love-of-variety model?
- π and θ show up on page 7, but have not been defined before.
- What if capital was present?
- Does it matter that markets are complete?
- The consumer problem should face a no-Ponzi condition.
- There seems to be a typo on page 9: oligopolistic firms charge LOWER markups than monopolistically competitive ones.
- The definition of market equilibrium on page 13 relies on FOC's to be sufficient. Are they? Transversality condition? Why define equilibrium like that?
- What is an efficient EQUILIBRIUM? It is an allocation.

Further Comments 2

- Prove that the primal approach is "valid", i.e. the allocation found as a solution to the primal problem can be implemented as an equilibrium with the two tax instruments.
- Section 6 seems misplaced. Maybe it should come after the first part of section 7.
- Section 7.1 could be written more clearly. It is not immediately clear which τ^d belongs to which case.
- Are first order approximations good for THIS model?
- Figure 3 reports taxes in first best. What are they - wedges?
- Maybe provide sample paths in the quantitative analysis?
- Tighten the paper a bit.