Tim Smet
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Research Methods 1 : Literature Portfolio
Descriptive Summary

The four major topics in my bibliography are Fiscal Policy, The theory of games, Tax Competition and Corporate investment decisions.

I Will begin by giving a brief summary of what the four topics are about and afterwards try to relate these to each other and try to explain what research I am aiming to by studying these topics

Fiscal Policy

The articles in this section are mainly aimed at understanding how fiscal policy is used in the economy. Fiscal policy does not only include taxes but also subsidies (in economic literature often referred to as negative taxes), government spending.
It is important to first understand how the government (or at least the financial part of it)work within the economy, how it may affect economic growth, inflation, unemployment, real wage level, etc. before talking about things like tax competition between countries or regions.

Tax Competition

Tax competition is the competition between different countries or regions to lower their taxes enough to attract investments, but not to low in order not to lose all the income from principally corporate taxes.
This topic is important because this not only affects the internal economics of a certain country or region, but also all other countries because in economics the total level of international investments is assumed to be equal (at the same level of interest everywhere). So by using tax competition, rich countries can compete more easily than poor countries, this is the main topic of article 24. Not only will rich countries have advantages, also larger countries have a significantly greater impact on others.

Theory of games

The theory of games is a mathematical model to solve a relation between 2 or more players. It is best to be explained using an example from the textbook[1].
An investment decision has to be taken, e.g. to give a discount on a certain product in a supermarket or not. The game looks as follows:

	Me	
Competitor ⇓	Give a discount	Give no discount
Give a discount	-20 (-20)	-50 (80)
Give no discount	80 (-50)	0 (0)

[1] Course on company economics from Vrije Universiteit Brussel (Prof W. Van den Panhuysse)

The numbers between brackets symbolize the return for my competitor those before them my return.
As you can clearly see giving a discount will be profitable if the other gives no discount, and giving no discount creates a loss if the competitor does. The loss if both give a discount is due to the discount itself.

Now take the same game but for a one time investment decision e.g. the investment in the building of a large airplane[2]. Competing are Boeing and Airbus that looks like this:

	Airbus	
Boeing ⇓	Build the plane	Build no plane
Build the plane	-20 (-20)	-50 (80)
Build no plane	80 (-50)	0 (0)

Now if I am the European Union and I decide to give a subsidy of 20, I can make sure that the investment in Europe will take place regardless of what Boeing does.
Here you can find the ground for one of the relationships between the theory of games and the corporate investments decisions.

There are different ways of solving this type of games but that is beyond the reach of this summary.
The important thing to remember is that they have (in some circumstances) different solutions.

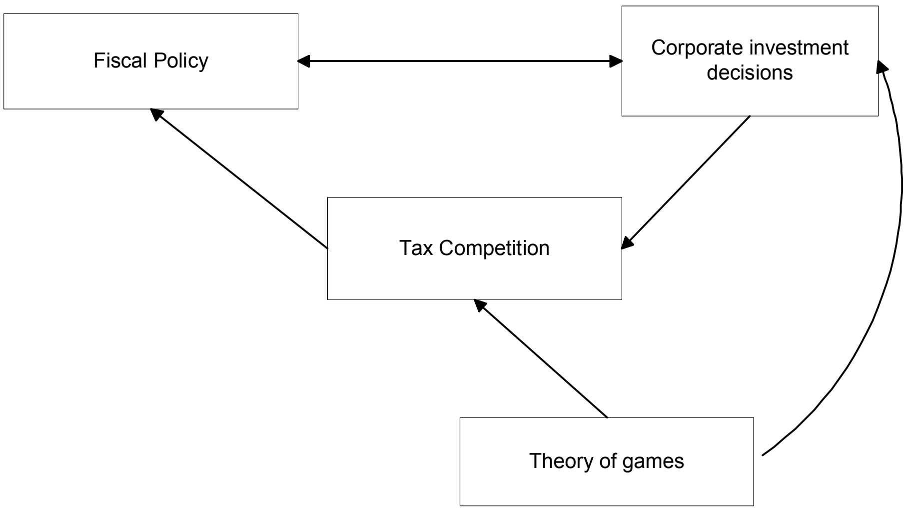
This topic is mathematical and so the literature contained is almost all theoretical with one empirical article (7) that tries to identify important differences among cultures in choosing a solution to a game.

Corporate investment decisions

The articles in this topic try to discover how companies (and one is about private investors as well) attribute their investment resources. Most are oriented towards the influence of taxes and the uncertainty about taxes on these investment decisions.
According to article 16 the tax levels are not that important as the uncertainty about the future tax levels, especially for long term investments.

[2] Course on company economics from Vrije Universiteit Brussel (Prof W. Van den Panhuysse)

Relating the topics



The link between Corporate investment decisions and Fiscal policy is the most logical. If taxes are lower more companies will invest in that country of region (all else equal) , and if more companies invest government can lower tax rates since the taxable base (the total profit of all the companies) is higher (alternately unemployment will be lower as well).
The theory of games applies to both, the corporate investment decisions but more importantly here the Tax competition. The theory of games is one of the systems that can be used to compete between countries on taxes as explained before.
Tax competition on itself is driven mainly by the will of governments to have more investments in the country and will affect the overall fiscal policy of the country.

This is the simple relating of these topics, but as promised in the beginning I will also show you where I want to continue my study. Actually I would like to continue by involving the hospitality industry into this picture and by analysing how the hospitality industry will make its investment decisions based on tax advantages, and why governments might tax the hospitality industry higher.
For this study to be conducted a thorough understanding of the concepts of corporate decision making and tax competition is necessary.

<u>Just some ideas:</u>
I do expect the hospitality industry to behave differently than e.g. the manufacturing industry for several reasons. Hotels are very long term investments with that are highly labour intensive, but most importantly a hotel has to be built where the guests want to stay, not where the taxes are the lowest.
On the other hand hotel chains have a choice as to where to build hotels and in tourism the guests can partially be marketed to go to other destinations (where taxes are lower)

But then again there is no such thing as a one handed economist.