

WELFARE IMPLICATIONS OF INCOME TAX CHANGES IN A CLOSED URBAN ECONOMY

Hans-Jürg Büttler

ABSTRACT

On the basis of common land use models, comparative statics results turn out to be counterintuitive with respect to income changes. For instance, lowering the income tax rate of the richest class in an urban economy, other things being equal, would not only make people of this richest class better off but also all of the other poorer classes. This will be shown to be incorrect if a more realistic land use model is used, the extensions of which are the following: First, both time cost and money cost of commuting are considered. Second, housing is a multidimensional good. Third, the supply of housing is based on a structural frame cost function which implies that people can explicitly reside in multistory buildings. Fourth, equilibrium is concerned with the housing market rather than with the land market. It will be shown that some comparative static effects are ambiguous but some are clearly not. Hence policy recommendations, e.g., for a tax subsidy schedule, should be based

Research in Urban Economics, volume 2, pages 293–308.

Copyright © 1982 by JAI Press Inc.

All rights of reproduction in any form reserved.

ISBN: 0-89232-212-8