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Property Tax and Its Effects on Strategic Behavior of Leasing and Selling for a Durable-goods Monopolist

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This article analyzes how a property tax affects a lease-sell strategy of a durable-goods monopolist, and discusses its implications on social welfare. This paper presents some interesting results: (i) Contrary to the traditional view, social welfare can be enhanced by a tax when the time discount factor is low. (ii) Property tax causes the monopolist to spread production over two periods and increases the total stock of products, which enhances social welfare. (iii) The Coase conjecture fails and a monopolist produces only in period 1 and does not produce in period 2 when marginal cost is high. (iv) A mixed strategy of leasing and selling can be a unique solution, and a property tax encourages the monopolist to choose to sell even when the marginal cost is zero.

Keywords: Monopoly; Property tax; Lease-sell strategy; Durable goods

JEL classifications: D42; H20; L11; L12

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