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Taxes and the location of production: evidence from a panel of US multinationals

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Abstract

This paper considers the factors that influence the locational decisions of multinational firms. A model in which firms produce differentiated products in imperfectly competitive markets is developed, in the spirit of [Horstmann and Markusen \(1992\)](#). Firms choose between a number of foreign locations; the outside options of exporting to or not serving the foreign market are explicitly modelled. Particular attention is paid to the impact of profit taxes; the separate roles of effective average and marginal tax rates are identified. The model is applied to a panel of US firms locating in the European market. Agglomeration effects are found to be important. The effective average tax rate plays a role in the choice between locations, but not in the choice of whether to locate production in Europe compared with one of the outside options.



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Keywords

Location of production; Profit taxes; Multinomial logit

JEL classification

D2; F2; H3

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