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COMMODITY TAXATION WITH NON LINEAR PRICING
OLIGOPOLY

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Abstract

This paper studies commodity taxation when firms use two-part tariffs in model of competition *à la Hotelling*. Three kinds of taxes are considered: a specific tax, an *ad valorem* one on the subscription fee and an *ad valorem* one on the per usage fee. We first derive the equilibrium tariffs, market shares and profits. We show that the tax on the subscription fee is profit neutral (unlike the other two) but socially costly (like the other two) as it modifies the consumption choice of the consumers. In a context of costly public funds the *ad valorem* taxation on the variable fee dominates specific taxation. Moreover, the ranking between *ad valorem* taxation on the fixed fee and an *ad valorem* taxation on the variable fee depends on the relative magnitude of economic parameters, in particular the degree of differentiation. Finally, we show that the government might prefer the use of two-part tariffs rather than the use of more general tariffs.

Keywords: two-parts tariffs, commodity taxation.

JEL Classification: H22, L13.

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