

The taxation of trades in assets *

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Abstract

When the asset market is incomplete, there typically exist taxes on trades in assets and a redistribution of revenue in the asset market that are Pareto improving.

The policy is anonymous, it economizes on complexity, and it results in ex post Pareto optimal allocations; it is publicly announced before markets open, thus fully and correctly anticipated by traders, it does not require that financial markets be shut down, and it does not modify the asset market structure. As such, it improves over previously proposed constrained interventions.

Key words: taxes, incomplete asset market, equilibrium, Pareto improvement.

JEL classification numbers: D52, D60, H20.

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