UNIVERSIDAD DE GRANADA

Departamento de
Teoría e Historia
Económica

Seminario: Jesús López-Rodríguez (Universidad de la Coruña)

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Título: Fiscal choices across Spanish municipalities: Do agglomeration economies matter?The measurement of the value of a language

Sala: E28

Hora: 12:30

Abstract: This paper presents a geographical economics model to analyse the relationship between business tax rates and agglomeration economies. The theoretical model predicts that in the presence of agglomeration economies, competition between different jurisdictions leads to a race-to-the top (jurisdictions with higher levels of agglomeration set up higher tax rates). Using data on the business tax rate (Impuesto de Actividades Económicas, IAE) for the case of the Spanish municipal system throughout the period 2005-2017, we analyse the theoretical predictions of the model regressing municipal business tax rates against municipal market potential using a fixed effects spatial panel data model. The results of the estimates conclude in favour of a positive and significant relationship between market potential are business tax rates. The results of our estimates are robust to the inclusion of electoral cycle dummies, “horizontal” and “vertical” fiscal interactions, and the use of different spatial weighting matrices.

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