

# Review of: "Using Taxes to Attract the Creative Class in the Presence of a Region-Specific Rent"

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**Potential competing interests:** No potential competing interests to declare.

The paper considers a situation in which two regions (A and B) compete with each other by tax breaks or subsidies in an attempt to attract creative entrepreneurs.

In region A, entrepreneurs make stochastic profits, whereas in region B they make fixed profits.

By making the problem very simple, the Cournot game like model attempts to clarify the conditions under which regions A and B will succeed in attracting an entrepreneur.

This simplified model can be used as the basis for a more sophisticated model.

However, there are a few problems that I would like to comment for further development.

1. Equations 4 and 5 are incorrect. The parentheses are missing. The correct equation should be

$p(\Pi - T^A + \zeta^H) + (1-p)(\Pi - T^A + \zeta^L)$ .

2. Subsidy  $I$  is a negative number. But since it is difficult to follow the equation, it would be better to make it positive and use equation 6 as  $I^B - T^B > 0$ , and the same below.

3. In region B, entrepreneurs have fixed profits. Is there really any incentive for Region B to attract entrepreneurs in such situations? Perhaps you are assuming local government officials and chiefs as regional agents, but I think there is a problem with the assumption that Region B will try to attract entrepreneurs.

4. Related to 3, given the characteristics of regions A and B, I think a cooperation game in which both regions try to split the profits is more realistic. I think this could be considered as a possible model development.