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s) + [σ(1 — s) + γ(σ — 1)](1 — s) = —(1—τ)φ $_{2\ \sigma s}$ < 0 under condition B. As a consequence, RH(s) is decreasing in s under condition B.

13. 13. To summarize the benchmark parameter values, economic growth rate = 0.02, t = 0.2, δ = 0.05, ρ = 0.025, σ = 2, θ = η = 0.5, u = v = 0.5, α = b = 0.8, a (earmarking) = 0.2179 and a (general fund) = 0.2064.

14. 14. To summarize the benchmark parameter values, economic growth rate = 0.02, = 0.2, δ = 0.05, ρ = 0.025, σ = 2, θ = η = 0.5, u = v = 0.5, γ = 0.3, and a = 0.1512.

15. 15. We thank an anonymous referee for bringing this point to our attentions.

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