

# Transfer Pricing and Taxation under Asymmetric Oligopoly\*

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March, 2007

## Abstract

I consider transfer prices of decentralized multinational firms under asymmetric oligopoly. The cost difference of MNEs arises from the upstream production, from the downstream production, or from both of them. When the corporate tax of the host country is sufficiently higher than that of the home country, transfer prices of both MNEs are strategic complements. In this case, whether the firm, that has higher transfer price, is more efficient or less efficient than the other depends on the source of the cost difference. The efficient firm, however, has higher mark-up ratio than the less efficient firm. When the corporate tax of host country is not sufficiently higher, transfer prices of both MNEs are strategic substitutes and the results are opposite. I also consider a transfer pricing taxation of the host country and examine the effect of that taxation on the social welfare.

*Keywords* : decentralized firm; heterogeneous firms; oligopoly; transfer pricing; transfer pricing taxation

*JEL Classification* :

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\*I am very grateful to Jota Ishikawa. I also thank Taiji Furusawa and Hiroshi Mukunoki.

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