The impact and externalities of natural disasters on local tax revenue in Colombia

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This paper studies the impact of natural disasters on tax revenue across Colombian municipalities. We follow a two-step approach to evaluate how a municipality's tax revenue depends on natural disasters taking place both locally and in its trade partners. In the first step, we estimate a gravity model of bilateral trade and construct a matrix of estimated bilateral trade shares allowing us to measure the strength of the economic relationships between municipalities. In the second step, our results reveal that natural disasters in the destination municipalities increase the tax revenue in the origin cities.