

## Reply to Referee Report 3 on the paper “**Indirect Taxation, Public Pricing and Price Cap Regulation: A Synthesis**”

I wish to thank Referee 3 for her/his very useful comments. I think that all of them are appropriate and deserve to be addressed.

First of all, I agree that avoiding to show the formal equivalence for all the results arising within the “optimal indirect taxation” framework and those arising in a context of “optimal public pricing” would improve the reading of the paper. I think the Referee’s suggestion of showing, once for all, that the two underlying problems are formally equivalent is a viable way to avoid to repeat that this equivalence apply to all results in section 2. I thank the Referee for this suggestion that I am willing to implement in the revision of the paper.

Also, I am going to discuss why a monopoly regulator should be concerned with distributional issues. Probably this is a less recognized task of regulation that, however, has been widely addressed by the economic literature. In fact, in addition to Hancock and Waddams Price (1995) and Waddams Price and Hancock (1998), which are already cited in the paper, there are several other contributions (many of them published by Catherine Waddams and her co-authors) that explain why also fairness may be a relevant regulatory issue and how the regulator should deal with it. I will discuss this literature more in details in the revised version of my paper.

Regarding the other minor comments:

p.7, line 3: I will replace “distance” with “relative distance”

p.7, first paragraph of section 2.3: I will try to make this point clearer (a possible option is just avoiding to refer to the irrelevant case of one representative household)

p. 18: I will mention the price cap’s trade-off between the possibility of making no use of information and the vulnerability to a possible strategic behavior by the regulated firm.

I will also explain under what conditions price cap regulation ensures second best optimality (a similar request has been formulated also by Referee 1)