

The Macroeconomic Effects of Individual Commodity Tax

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Abstract³

This paper investigates the condition which raising individual consumption tax raises output and private consumption in general equilibrium model. If the substitution effect of levying on additive ad-valorem commodity tax of a good is larger enough than the negative wealth effect of taxing and expanding government spending, individual tax finance can increase macroeconomic effect, in contrast to lump-sum and general commodity tax.

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³ This paper's inspiration is originated by Professor Ogaki's lecture and Ogaki (1990). Regrettably, we cannot show these effects explicitly in this paper, but important essence (i.e. substitution effect let consumption increase) still remains.