Empirical Analysis on the Macroeconomic Effects of Fiscal Policy and Rule-of-thumb Households

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Abstract

This paper aims to ascertain whether the macroeconomic effects of fiscal policy are affected by the existence of rule-of-thumb households. This is motivated by the theoretical findings shown by Galí et al. (2007). To achieve our purpose, we estimate Campbell and Mankiw (1989) type consumption function extended to Markov switching model and divide the sample period into two part depending on the share of rule-of-thumb households. Given the divided sample period, we estimate VAR model and investigate the effects of two types of fiscal policy shock: unanticipated and anticipated fiscal policy shock. Our results reveal that the effects of unanticipated fiscal policy shock enhances in the period of the share of rule-of-thumb household being high.

Keywords: Fiscal policy, rule-of-thumb household, Markov-switching model, MCMC

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