

Time-varying Effect of Fiscal Policy in Japan*

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Abstract

This paper investigates the time-varying effect of fiscal policy in Japan. By employing sign restrictions, we extend the time-varying parameters vector autoregressions (TVP-VAR) model, and identify two types of fiscal policy: a surprise fiscal policy shock and an anticipated fiscal policy shock. As results of my analysis, it is clear that two types of fiscal policy has different effects on GDP, consumption, and investment. In particular, the response of GDP shows the opposite sign by each type of shock. Further, in the case of a surprise shock, the rapid declines in the response of GDP is observed after the collapse of the “bubble” economy. However, the time-path of responses in each variable is varying greatly throughout the sample period, and thus it is hard to say that only the collapse of the “bubble” economy is a turning point of the effect of fiscal policy.

Keywords: Fiscal policy, fiscal foresight, TVP-VAR model, sign restriction

JEL codes: E62, C11, C32

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