

Fiscal Stabilization under Government Spending Reversal

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January 23, 2015

Abstract

This paper shows that the stronger fiscal rule usually does not improve the local stability of the equilibrium in the simple model with two commonly-used fiscal policy suggested by Corsetti et al. (2012). Strengthening fiscal stabilization rule may worsen fiscal stability under sufficiently large interest rate or persistency of government spending.

Key words: fiscal rule, local stability, persistency of government spending

JEL Classification Number: H6, E6