

Optimal Public Good Provision under Job Search and Matching Frictions

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Abstract

We develop a competitive search model involving public good provision, and characterize the optimality condition of public good provision, i.e., the Samuelson-rule, which also delivers the optimal size of public employment. We then compare it with the public good provision under the following three commonly used scenarios: (i) the case wherein a government is not a welfare maximizer, (ii) the case wherein the wage is determined by Nash bargaining, and (iii) the case wherein public good provision is financed by (distortional) income tax.

Keywords: Optimal public goods provision, Search friction, Income taxation

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