

Effects of Public Investment on Sectoral Private Investment : A Factor Augmented VAR Approach*

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Abstract

Public investment decreases aggregate private investment both neoclassical and Keynesian model. However, there is no evidence about effects of public investment on disaggregates private investment, such as sectoral private investment. Especially, previous researches have neglected the distinction of investment behavior at each sector to public investment and the possibilities of crowd-in effect at some industries, such as the sectors which are blessed in public demand. On the other hand, public investment decreases some sectoral private investment via not increasing rental cost, but also differences in resource misallocation effect of public investment itself, such as some sector receives positive wealth effect but other suffers negative one. Therefore, this paper investigates how much public investment crowd-out or in each industrial investment using Factor Augmented VAR (FAVAR) model that allows us to analyze large scale VAR model. The result of our investigation shows that effect of public investment differs with each sector not only quantitative, but also qualitative. This result implies the differences of benefits of public investment and enhancing resource misallocation as a side effect in each sector.

JEL Classification Numbers : H32、 H54.

Keywords : Fiscal Policy, Investment, Crowding-Out, Crowding-In

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