

Expansionary Effect of an Anticipated Fiscal Policy on Consumption in Japan

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Abstract

This paper investigates the effect of an anticipated fiscal policy on consumption in Japan. I identify an anticipated increment in public investment by using the excess stock returns on the construction industry and by applying the sign restriction VAR. The result shows that GDP and consumption respond to a public investment shock positively. Further, I demonstrate that the empirical facts are consistent with the New Keynesian model that has a high elasticity of labor supply and a large share of Non-Ricardians.

Keywords: Fiscal policy, fiscal foresight, sign restriction VAR

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