

Empirical Analysis on the Effects of Japanese Fiscal Policy under the Effective Lower Bound

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Abstract

For the Japanese economy, we examine whether the effectiveness of fiscal policy is amplified under the effective lower bound of nominal interest rates using a non-linear time-varying parameter vector autoregression model. The model adopts the Tobit specification on the interest rate equation in order to isolate the role of monetary policy stance on the effectiveness of government spending shock by comparing the two values of fiscal multiplier computed based on the actual and implied interest rate, respectively. We find that government spending shock greatly reduces the real interest rate under the zero interest rate policy, so that the effective lower bound of short-term interest contributes to enhance the effect of fiscal policy on output.

JEL classification: E62; C32; E52

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