

# Author's Accepted Manuscript

## Equilibria Under Monetary and Fiscal Policy Interactions in a Portfolio Choice Model

Baruch Glikberg



[www.elsevier.com/locate/jedc](http://www.elsevier.com/locate/jedc)

PII: S0165-1889(16)30091-4  
DOI: <http://dx.doi.org/10.1016/j.jedc.2016.05.014>  
Reference: DYNCON3309

To appear in: *Journal of Economic Dynamics and Control*

Received date: 14 October 2015  
Revised date: 15 May 2016  
Accepted date: 19 May 2016

Cite this article as: Baruch Glikberg, Equilibria Under Monetary and Fiscal Policy Interactions in a Portfolio Choice Model, *Journal of Economic Dynamic and Control*, <http://dx.doi.org/10.1016/j.jedc.2016.05.014>

This is a PDF file of an unedited manuscript that has been accepted for publication. As a service to our customers we are providing this early version of the manuscript. The manuscript will undergo copyediting, typesetting, and a review of the resulting galley proof before it is published in its final citable form. Please note that during the production process errors may be discovered which could affect the content, and all legal disclaimers that apply to the journal pertain

# Equilibria Under Monetary and Fiscal Policy Interactions in a Portfolio Choice Model

Baruch Gliksberg\*  
The University of Haifa

May 25, 2016

## Abstract

This paper studies how the presence of income-taxes changes the properties of general equilibrium models with monetary and fiscal policy interactions. It finds that from a global perspective, the only policy regime that leads to a unique equilibrium is one where fiscal policy is active, i.e. the fiscal theory of the price level regime in Sims (1994). From a local perspective, there are three regimes. In particular, and relative to the previous literature following Leeper (1991), a new third regime exists where a passive fiscal rule combined with a passive monetary rule can still deliver determinacy where the same area of the parameter space would lead to multiple solutions if taxes were lump sum. To obtain the size of the new regime, the paper characterizes analytically the extent to which tax cuts are self-financing and how the distortionary tax Laffer curve looks near the steady state. In the new regime, monetary and fiscal backstops are brought into play so as to rule out off equilibrium dynamics, and inflation can temporarily increase in order to increase seigniorage revenues. With this flexibility, the monetary policy is consistent with the real debt remaining bounded, and the arithmetic that follows is monetarist and unpleasant in the sense of Sargent and Wallace (1981).

**JEL Codes:** C62; E60; G11; H60;

**Keywords:** Distorting Taxes; Dynamic Laffer Curve; Monetary and Fiscal Backstops; Portfolio Choice; Unpleasant Monetarist Arithmetic;

## 1 Introduction

This paper addresses a classic question in monetary economics: what are the necessary and sufficient policy rule parameters for the existence of a unique monetary equilibrium? Unlike much of the literature, which ignores the role of fiscal rules, this paper jointly examines the

---

\*Department of Economics, The University of Haifa, Mt. Carmel, Haifa 31905, Israel. Email: baruchg@econ.haifa.ac.il

Download English Version:

<https://daneshyari.com/en/article/5098148>

Download Persian Version:

<https://daneshyari.com/article/5098148>

[Daneshyari.com](https://daneshyari.com)