Monetary and Fiscal Policies: Topics and Background

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May 2013
Research Areas

- **Research on fiscal policy** typically abstracts from monetary conditions (focuses on real models and data for real variables), with two major exceptions:

  1. Research on the inflation tax and the role of seigniorage in models of optimal taxation.

  2. Research on fiscal multipliers—particularly in the context of Dynamic Stochastic General Equilibrium (DSGE) models—and how their size depends on the conduct of monetary policy.

Monetary Theory mostly abstracts from fiscal policy, except for research (over the last two decades) on the Fiscal Theory of the Price Level (FTPL).

The public debt does not play a central role in standard quantitative models used for policy analysis in advanced economies [e.g., debt does not, typically, appear in DSGE models developed at central banks].
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Standard macro models incorporating the PIH have strong implications of debt neutrality (Ricardian Equivalence).

DSGE models used for policy analysis start with a core model that has optimizing households, although they do not always imply strict Ricardian Equivalence [e.g., they may incorporate finite horizons], their departures from Ricardian Equivalence are often quantitatively small.

The empirical literature on growth does not establish a clear role for the public debt once we control for other factors, although there is more convincing evidence on the adverse growth effects of external debt in emerging-market economies.
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Non-quantitative models are also useful in motivating empirical research (albeit with a looser connection than what quantitative models aspire to achieve).