

Fiscal and Monetary Policy in an Endogenous Growth Model with Public Capital

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January 30, 2007

Abstract

This paper describes an endogenous growth model in which the government finances its public investment using both income taxation and seigniorage. Arguments presented in this paper show that monetary policy always has positive impacts on economic growth and the inflation rate. Furthermore, we show that the growth-maximizing tax rate on income is less than the output elasticity of public capital on the BGP, a suitable result compared to those of empirical studies.

Keywords: Fiscal policy; monetary policy; economic growth; welfare

JEL classification: H54; O11; O23

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