ABSTRACT

The effects of the increase in Tunisian government expenditure on the private sectors, is investigated in a Dynamic Stochastic General Equilibrium Model. We establish a distinction between the consumption and the investment expenditure components of government purchases because these shocks are expected to generate different macroeconomic effects. There are two main findings: (i) the economy’s response to an increase in government expenditure depends on how it is financed. Distortionary tax finance may lead to a decline in output, consumption, and investment. In contrast, lump-same tax finance increases output and employment. (ii) Government investment differs from government consumption in that it increases output similarly to a positive technology shock. These findings lead us to conclude that the fiscal stimulus package through additional temporary government spending that has been implemented this year may help to achieve social goals while stimulating economic activity and employment.

Keywords: DSGE Model, Fiscal Shock, Business Cycle, Public Capital

JEL Classifications: E02, E6, E44, H5, H54, H72.