

# Dynamic effects of government budgetary policies in Reichlin's overlapping generations model with externalities

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## Abstract

Based on Reichlin's overlapping generations model (1986), this paper thinks that capital income tax rate and/or consumption tax rate are endogenously adjusted to finance given increases in government expenditure and investigates how local dynamics are affected by changes in its expenditure, depending on the degree of productive externalities. We also consider that public spending is endogenously determined for fixed tax rates on capital income and consumption and explore how capital income and consumption tax rates influence the occurrence of indeterminacy and local bifurcations. The purpose of the present paper is to compare the likelihood of economic instability among the different modes of government budgetary policies.

*Journal of Economic Literature* Classification Number:

*Key Words:* Reichlin's overlapping generations model, government budgetary policy, indeterminacy, Hop-, flip- and saddle node-bifurcations

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