

# Fiscal Policy, Home Production and Growth Dynamics

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## Abstract

Using an endogenous growth model with physical and human capital, we analytically explore short-run as well as long-run effects of fiscal policy in the presence of households' production activities. Unlike the existing indeterminacy or non-existence result in models with distortion policies, the present model exhibits well-behaved equilibrium dynamics. The policy experiments both in and out of the balanced-growth equilibrium reveal distinctive implications of home production activities. For example, our formal setting of the home production sector reveals a weaker policy effect result compared to the ones without home capital, which is consistent with the numerical output in the existing literature.

*JEL classification:* H31, D13, O41

*Keywords:* fiscal policy, home production, multi-sector endogenous growth model.

*Running head:* Fiscal Policy, Home Production and Growth Dynamics

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