

Fiscal Policy Puzzle and Intratemporal Substitution among Private Consumption, Government Spending, and Leisure. *

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Abstract

This paper investigates how the response of private consumption to government spending can be changed by intratemporal substitution among private consumption, government spending, and leisure. We show that the response of private consumption to government spending can be positive even if private consumption and government spending are not complements and private consumption and leisure are not substitutes. In this case, substitution between leisure and government spending plays an important role. Previous works have overlooked this perspective.

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