World Academy of Science, Engineering and Technology
International Journal of Economics and Management Engineering
Vol:16, No:01, 2022

Estimating the Government Consumption and Investment Multipliers Using Local Projection Method on the US Data from 1966 to 2020

Authors : Mustofa Mahmud Al Mamun

Abstract : Government spending, one of the major components of gross domestic product (GDP), is composed of government consumption, investment, and transfer payments. A change in government spending during recessionary periods can generate an increase in GDP greater than the increase in spending. This is called the "multiplier effect". Accurate estimation of government spending multiplier is important because fiscal policy has been used to stimulate a flagging economy. Many recent studies have focused on identifying parts of the economy that responds more to a stimulus under a variety of circumstances. This paper used the US dataset from 1966 to 2020 and local projection method assuming standard identification strategy to estimate the multipliers. The model includes important macroaggregates and controls for forecasted government spending, interest rate, consumer price index (CPI), export, import, and level of public debt. Investment multipliers are found to be positive and larger than the consumption multipliers. Consumption multipliers are either negative or not significantly different than zero. Results do not vary across the business cycle. However, the consumption multiplier estimated from pre-1980 data is positive.

Keywords : business cycle, consumption multipliers, forecasted government spending, investment multipliers, local projection method, zero lower bound
Conference Title : ICFMM 2022 : International Conference on Fiscal Management and Macroeconomics
Conference Location : Tokyo, Japan
Conference Dates : January 07-08, 2022