World Academy of Science, Engineering and Technology
International Journal of Economics and Management Engineering
Vol:9, No:06, 2015

The Optimal Public Debt Ceiling in Taiwan: A Simulation Approach

Authors : Ho Yuan-Hong, Huang Chiung-Ju

Abstract : This study conducts simulation analyses to find the optimal debt ceiling of Taiwan, while factoring in welfare maximization under a dynamic stochastic general equilibrium framework. The simulation is based on Taiwan's 2001 to 2011 economic data and shows that welfare is maximized at a "debt"⁄"GDP" ratio of 0.2, increases in the "debt"⁄"GDP " ratio leads to increases in both tax and interest rates and decreases in the consumption ratio and working hours. The study results indicate that the optimal debt ceiling of Taiwan is 20% of GDP, where if the "debt"⁄"GDP" ratio is greater than 40%, the welfare will be negative and result in welfare loss.

Keywords : debt sustainability, optimal debt ceiling, dynamic stochastic general equilibrium, welfare maximization
Conference Title : ICEBA 2015 : International Conference on Economics and Business Administration
Conference Location : San Francisco, United States
Conference Dates : June 07-08, 2015