



Fiscal Policy in a Small Open Economy with Oil Sector and Non-Ricardian Agents

Working Paper No. 759 Keep in mind

The series Working Papers on Economics is published by the Office for Economic Studies at the *Banco de la República* (Central Bank of *Colombia*). It contributes to the dissemination and promotion of the work by researchers from the institution. This series is indexed at Research Papers in Economics (RePEc).

On multiple occasions, these works have been the result of collaborative work with individuals from other national or international institutions. The works published are provisional, and their authors are fully responsible for the opinions expressed in them, as well as for possible mistakes. The opinions expressed herein are those of the authors and do not necessarily reflect the views of Banco de la República or its Board of Directors.

AUTHOR OR EDITOR Andrés González, Martha Rosalba López Piñeros, Norberto Rodríguez Niño, Santiago Téllez
AUTHORS AND/OR EDITORS López-Piñeros, Martha Rosalba

In this paper we develop a dynamic stochastic general equilibrium fiscal model for the Colombian economy. The model has three main components: the existence of non-Ricardian households, price and wage rigidities, and a fiscal authority that finances government spending partly with public debt. The model is calibrated to capture the empirical evidence on the macroeconomic effects of government spending and it is used to study the effect of an oil price shock under different fiscal policy rules. Our results show that fiscal multipliers in Colombia are positive in a way consistent with the evidence. Our analysis also shows that a structural fiscal rule delivers a better outcome in terms of macroeconomic volatility relative to a balanced budget rule or a countercyclical fiscal rule.

Documento actualizado a las 10:44 a.m. del 16/06/2013