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Implementability of the Non-Ricardian Optimal Fiscal Policy

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Abstract: Dealing with out-of-equilibrium behaviors of economic agents is necessary to fill in the gaps in the controversy surrounding the admissibility of the fiscal theory of the price level (FTPL). Incorporating Nash equilibrium into the theory serves this purpose. It turns out that under certain conditions, strategic interaction between a non-Ricardian benevolent government and households with tit-for-tat moves leads to an equilibrium consistent with the FTPL, where the non-Ricardian optimal fiscal policy is not globally viable. Implementability of the non-Ricardian policy depends on the stochastic properties of government expenditure, especially its variance.

Keywords: [Fiscal Theory of the Price level](#); [Ramsey Equilibrium](#); [Nash Equilibrium](#)

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