Schlicht, Ekkehart
Unexpected consequences of Ricardian expectations. (English) ⊡ Zbl 1283.91108
Metroeconomica 64, No. 3, 498-512 (2013); erratum ibid. 65, No. 1, 191-194 (2014).

Summary: The Ricardian equivalence thesis maintains that, given the time-path of government spending, a change in taxation does not alter the set of feasible lifetime consumption plans of the households and affects neither the demand for commodities and services nor the rate of interest, provided the households act rationally. This note establishes that the very expectations the thesis proposes ('Ricardian expectations') are invalidated if households act rationally. The divergence from Ricardian equivalence is traced to the omission of interest payments on public debt as part of the households' disposable income. The non-equivalence is valid in a wide class of models.

MSC:

91B42	Consumer behavior, demand theory
91B64	Macroeconomic theory (monetary models, models of taxation)

Cited in **1** Review
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Keywords:

Ricardian equivalence thesis; taxation; lifetime consumption plan; public debt

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