

Abstract

The focus of this bachelor's thesis is fiscal policy of a fragmented government that represents symmetric socio-economic groups. For the analysis of fiscal policy, I develop the model of a dynamic common pool. In the model, the fiscal choices of interest are 1) a level of tax revenue, 2) a level of public productive spending and 3) an intertemporal choice of a level of group's consumption spending. For each of the fiscal decisions, I describe a distortion associated with the fiscal choice stemming from the decentralized decision making. Next, I examine the impact of a deficit ceiling and fiscal institutions that centralize separate fiscal choices of groups on the three distortions. Due to the symmetry of groups, the analysis abstracts from the efficiency-equity trade-off. Among the key results is that three fiscal frameworks can attain the socially desirable fiscal policy: 1) centralization of the productive spending and the tax revenue combined with a deficit ceiling, 2) centralization of the consumption spending, 3) centralization of a budget size and the productive spending.