Abstract

The topic of fiscal policy has been long neglected in terms of fiscal policy´s interdependence with other main macroeconomic variables. Presented thesis therefore analyses the validity of different fiscal policy models for the case of Czech Republic. Dynamic stochastic general equilibrium (DSGE) framework is used throughout the thesis. Different fiscal policy rules are put into otherwise identical – benchmark - model and the models are compared to each other and to the benchmark model. The analysed fiscal policy models are an acyclical, counter-cyclical, two pro-cyclical and dichotomous spending models. We find that the most plausible fiscal policy rule is of pro-cyclical type and closely follows the model of Alesina et al. (2008). The model assumes that interest groups can steal part of government income through corruption and voters cannot observe it, so they demand maximum fiscal spending in the good times. The logic of this model is in accordance with the current state of fiscal and economic behaviour in Czech Republic.