

Using an Overlapping Generations Model to Assess the Effects of Financing a Large Government Expenditure *

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Abstract

This paper ...

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JEL classifications: ??

IN PROGRESS

*The views expressed in this paper are the authors' and should not be interpreted as those of the Congressional Budget Office.

1 Introduction

This paper serves two major purposes. First, it documents the effects of various financing methods for funding a major increase in government expenditures. Second, it details and documents a substantive revision to CBO's overlapping generations model.

1.1 Literature Review

Cite the following: [Auerbach and Kotlikoff \(1987\)](#), [Nishiyama and Smetters \(2007\)](#), [Nishiyama and Reichling \(2015\)](#), [Nelson et al. \(2019\)](#).

2 The Overlapping Generations Model

This section details CBO's revised overlapping generations model.

2.1 Firms' Problem

2.2 Households' Problem

2.3 Government

2.4 Calibration

2.5 Solution Method

3 Results from Financing Options

CBO paper examines three financing mechanisms:

- Tax on labor income only
- Tax on combined labor and capital income
- Consumption tax

For this paper do we want to consider other mechanisms as well?

- Lump-sum tax
- Other?

4 Conclusion

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