



You are cordially invited to

UCLouvain Economics Seminar

On **Thursday** December 1, 2016 from **12:45 to 14:00**
Doyen 22, Place des Doyens, 1

Fabrice Collard
(University of Bern)

Will give a presentation on

Public Debt as Private Liquidity: Optimal Policy

Abstract: We study the Ramsey policy problem in an economy in which public debt contributes to the supply of assets that private agents can use as buffer stock and collateral, or as a vehicle of liquidity. Issuing more debt eases the underlying financial friction. This raises welfare by improving the allocation of resources; but it also tightens the government budget by raising the interest rate on public debt. In contrast to the literature on the Friedman rule, the government's supply of liquidity becomes intertwined with its debt policy. In contrast to the standard Ramsey paradigm, a departure from tax smoothing becomes desirable. Novel insights emerge about the optimal long-run quantity of public debt; the optimal policy response to shocks; and the sense in which a financial crisis presents the government with an opportunity for cheap borrowing.
(Joint paper with G.M. Angeletos and G. Dellas)

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