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Welfare effects of fiscal and monetary policy in Nigeria
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Abstract
Fiscal and monetary authorities respectively, are constantly faced with the task of setting the appropriate policy paths that get the economy closest to its optimal state. These policies, however, should be evaluated in order to understand their potential cyclical, growth and welfare effects. This study, therefore, considered the welfare effect of fiscal and monetary policy on the Nigerian economy. In specific terms, the study ranked the welfare level of several specifications of fiscal policy in the presence of a Taylor rule in monetary policy. The study solved a New Keynesian Dynamic stochastic General Equilibrium Model (DSGE) using the second-order approximated method. The findings of the study show that there are welfare gains associated with the use of fiscal and monetary policy. The study also found that specifying fiscal rules that are passive and responding to debt has the highest welfare potential. This means that fiscal policymakers in Nigeria should endeavor to design fiscal institutions that targets debt level but at the same time does not constrain the independence of the Central Bank. © 2018 Elsevier Ltd. All rights reserved.

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