

# "Edgeworth dependence and government spending multipliers: a theoretical analysis"

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## *Abstract*

In this paper we derive analytic implicit form conditions for the qualitative analysis of government spending multipliers (on consumption and income) in presence of nonseparability between private and public components of aggregate demand. Using the simplest neo-classical flexible price model with no capital accumulation, we show that Edgeworth dependence is not a suitable condition to automatically assess the signs of the consumption and income multipliers, for which a more complex analysis must be carried out. We propose a detailed investigation of the form and the characteristics of the involved utility functions, which are crucial to such evaluation.

We also show that if Edgeworth complementarity is strong enough, a public spending stimulus can raise at the same time private consumption and real activity. In order to reconcile our general framework with existing literature, we discuss recent examples of non-separable functional forms from the standpoint of our results, and argue that their consistency relies on specific assumptions about steady- state points.