

“Optimal Fiscal Policy In An Economy With an Informal Sector”

Tsvetomir Tsachev, Iglia Vassileva

- ▶ dynamic game with two players:

government (chooses tax rate)

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private sector (chooses between consumption and investment,
work and leisure and
work in the official or informal sector)

- ▶ Nash equilibrium concept is used to obtain optimal trajectories

Simulations

- ▶ *Simulation*: Decline in productivity in the official sector in a model with and without parallel activities.
- ▶ *Result*: The integration of an informal sector contributes to a better explanation of empirical data.

- ▶ *Simulation*: Increase in the efficiency of detection of tax evasion.
- ▶ *Result*: Efficiently implemented measures to improve tax collection provide room for tax rate reduction / or can counterbalance tax base reductions in times of downturns (i.e. decrease the social and budgetary costs of an economic crisis).