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<p>Tiivistelmä-Referat-Abstract</p> <p>This licentiate thesis analyses fiscal policy co-ordination under imperfect labour markets and monetary union. Fiscal policies may have positive and/or negative spillovers that may lead to welfare losses. These spillovers can be internalised through policy co-ordination. First, we discuss policy credibility, time-inconsistency, and commitment, and then make a survey of policy co-ordination literature. Finally we extend an existing model to analyse fiscal policy co-ordination in a static two-country macro-economic framework. We compare uncoordinated and co-ordinated fiscal policies in a Nash game and two Stackelberg games with first the governments and then the labour unions as leaders. The results are analysed as functions of the governments' inflation aversion. We interpret the Nash game and the game with the labour unions as Stackelberg leaders as regimes in which the governments are unable to commit to their fiscal policies. The results of these two games differ only slightly. Also, there is very little difference between the uncoordinated and co-ordinated cases. The results are different in the Stackelberg game with the governments as leaders. Here the governments are able to commit in the eyes of the labour unions. Compared to the other two games, commitment results in stricter fiscal policies, lower nominal wages, lower inflation, higher real wages, lower employment and output, and higher labour union utility. Also there is a difference between the uncoordinated and co-ordinated cases. Co-ordination leads to a less strict fiscal stance, higher inflation and nominal wages, lower real wages, higher employment and output, and lower labour union utility. According to the results, governments should either let the labour unions be leaders or co-ordinate their policies if they are leaders themselves. Meanwhile, the labour unions gain from letting the governments act as leaders, especially if the latter do not co-ordinate their fiscal policies. The best case is therefore not the same for the governments and the labour unions. Our results emphasise the benefits from fiscal policy co-ordination when the fiscal authorities are able to make a commitment to their policies. Lack of commitment neutralises any effects from fiscal policy co-ordination.</p>			
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