ABEL CADENILLAS, University of Alberta

The Optimal Control of Government Stabilization Funds

We study the optimal control of a government stabilization fund, which is a mechanism to save money in the good economic times to be used in the bad economic times. The objective is to keep the fund as close as possible to a predetermined target. Thus, we consider a running cost associated with the difference between the actual fiscal fund and the fund target. The fund manager exerts control over the fund by making deposits in or withdrawals from the fund. The withdrawals are used to pay public debt or to finance government programs. For the first time in the literature, we find the optimal band for the government stabilization fund. Our results are of interest to practitioners.