

# State-Dependency of Fiscal Price Puzzle

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Very Preliminary Draft — Please do not circulate

## **Abstract**

This paper examines the state-dependent nature of the Fiscal Price Puzzle, where expansionary fiscal policy doesn't increase prices as traditional theory predicts. Extending Jørgensen and Ravn (2022), we use a state-dependent local projection model to analyze price responses to fiscal shocks during economic expansions and recessions. Our findings show significant state dependence: during expansions, government spending increases don't raise prices and Total Factor Productivity (TFP) rises, consistent with the puzzle. However, during recessions, spending increases cause inflation without TFP growth. This suggests that the channel proposed by Jørgensen and Ravn (2022) may only apply during expansions, while recessionary effects align with conventional theory.

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