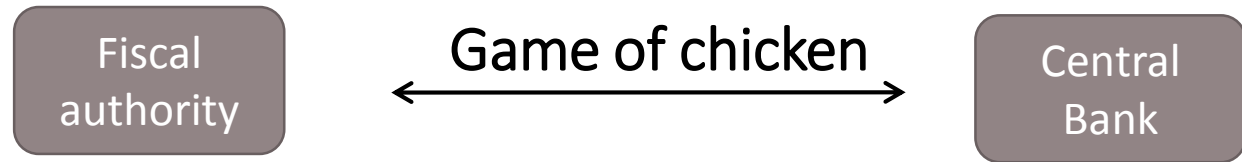


III Institutional design: game of chicken



- Monetary dominance
 - Fiscal authority is forced to adjust budget deficits
- Fiscal dominance
 - Inability or unwillingness of fiscal authorities to control long-run expenditure/GDP ratio
 - Limits monetary authority to raise interest rates
- 0/1-Dominance vs. battle: “dynamic game of chicken”