

The Effect of Incentive Transfer Schemes in Executive Agency Systems with Marketable and Non-Marketable Public Services

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Abstract

In the case where both marketable and non-marketable public services exist, the executive agency systems that introduce an incentive payment scheme are evaluated. We discuss how the shadow cost of public funds and demand or cost interdependency between the two public services affect the resource allocation in the executive agency systems. Several economic implications are derived. For example, the introduction of the incentive payment scheme can raise the equilibrium price of the marketable public service, even though it increases the supply of the non-marketable public service. In addition, we show that the adoption of the executive agency system can reduce the government's budget deficit, when the two public services are technologically substitutes or independent each other and the magnitude of production risks is beyond a threshold level.

Keywords: Marketable public service; Incentive transfer scheme; Executive agency

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