

Abstract

In the literature of local public finance, one of the well-known property of optimal matching grant program is that the matching grant rate should increase as the degree of benefit spillovers of public goods increases. This paper presents the re-examination of properties of optimal matching grant program, using the model of Bjorvatn and Schjelderup (2002). The result formally captures a quite counter-intuitive property of matching grant that optimal matching grant rate might decrease with the degree of spillover externality.