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**Abstract**

In this paper we analyse the relationship between market power and the effect of fiscal policy. In particular we compute average mark-ups as a measure of market power throughout time and study their interaction with fiscal policy and macroeconomic variables in a five-variable VAR. From impulse response functions the illustrative results with annual data for the U.S. (1964-2007) and Sweden (1971-2007) show that: (i) real final government consumption has a non-Keynesian impact on real output and (ii) the mark-up depicts a pro-cyclical behaviour with productivity shocks and a counter-cyclical behaviour with fiscal shocks.

JEL Classification: D5, E0, E3, H6.
Keywords: Fiscal Policy, Mark-up, VAR.