

Economics 435
Macroeconomic Policy
9/21/2021

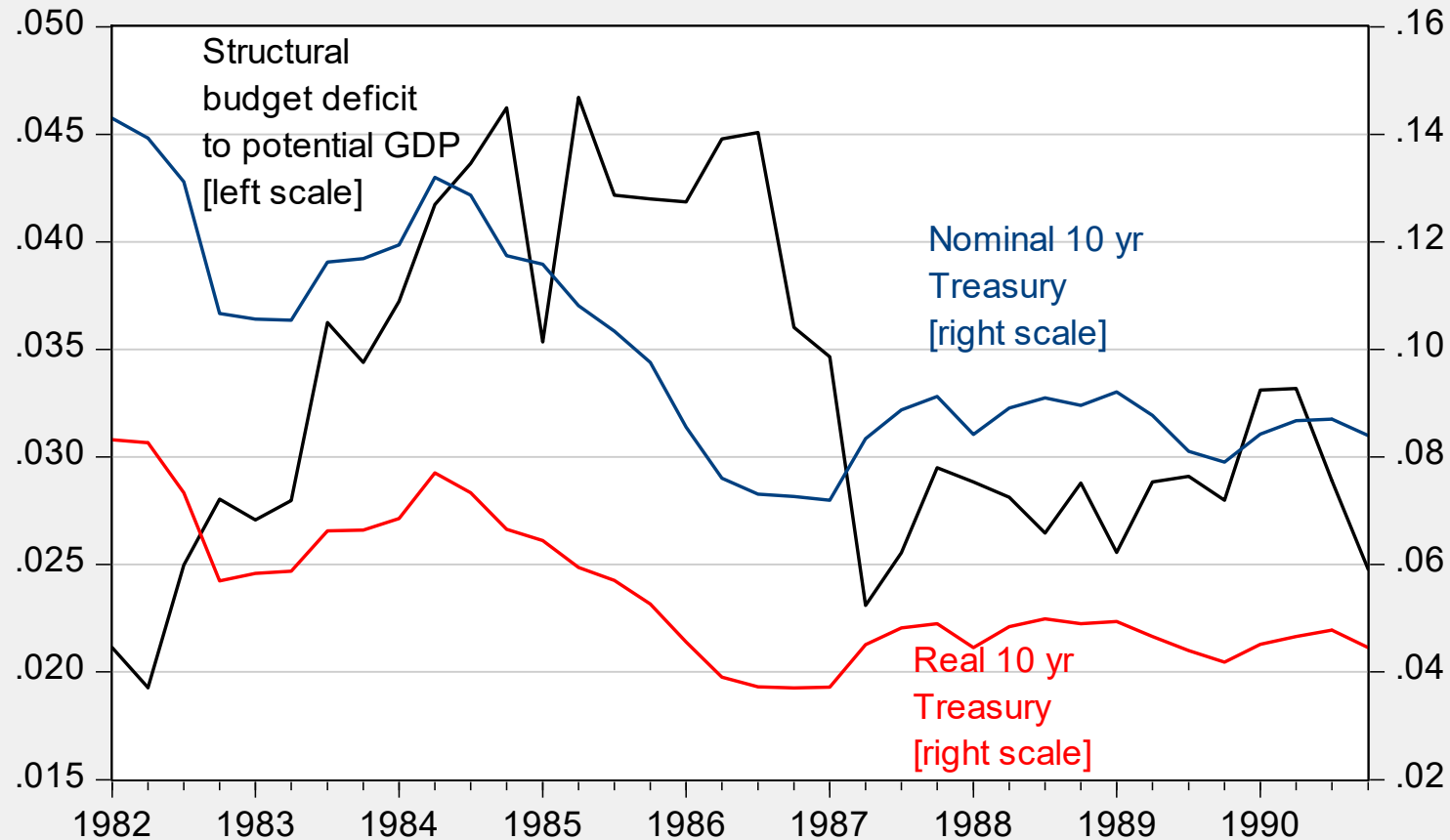
Instructor: Prof. Menzie Chinn
UW Madison
Fall 2021

Outline

- Deficits and interest rates
- Shifts in bond demand
- The future

Deficits and Interest Rates

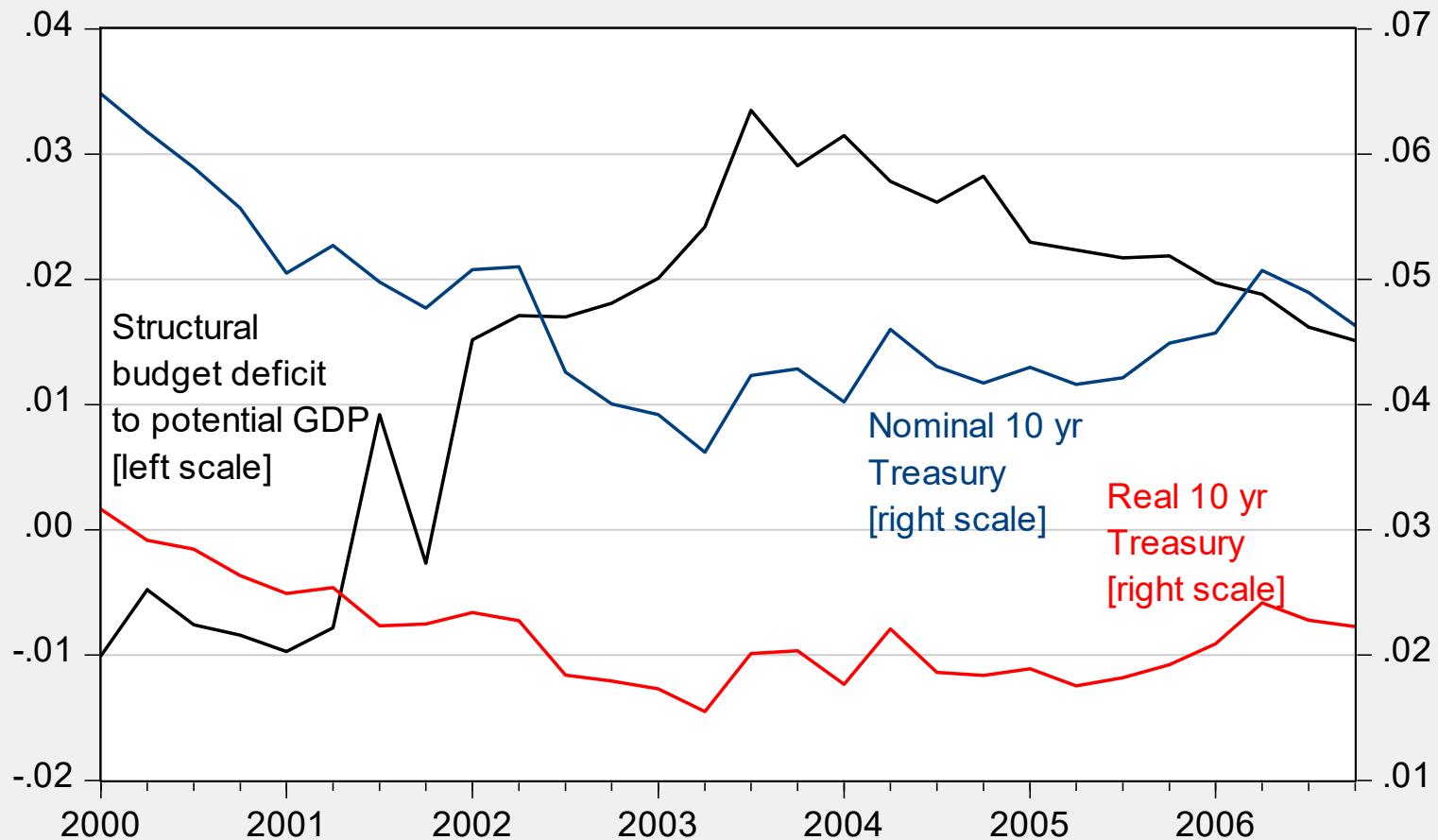
Reagan Years



Structural budget deficit is CBO cyclically adjusted deficit as share of potential GDP

Real 10 year Treasury is 10 year Treasury minus Cleveland Fed estimate of 10 year inflation expectations

G.W. Bush Years

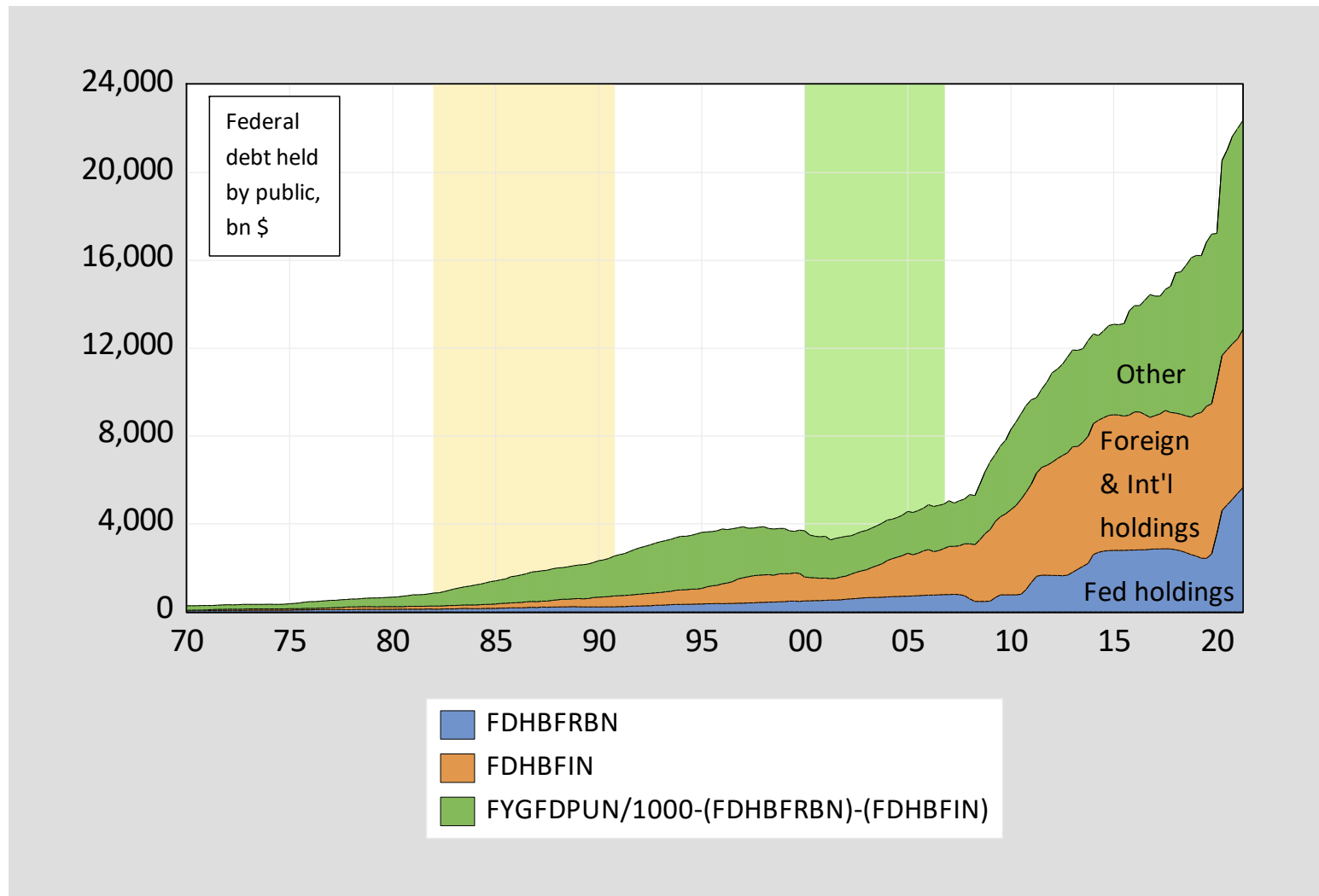


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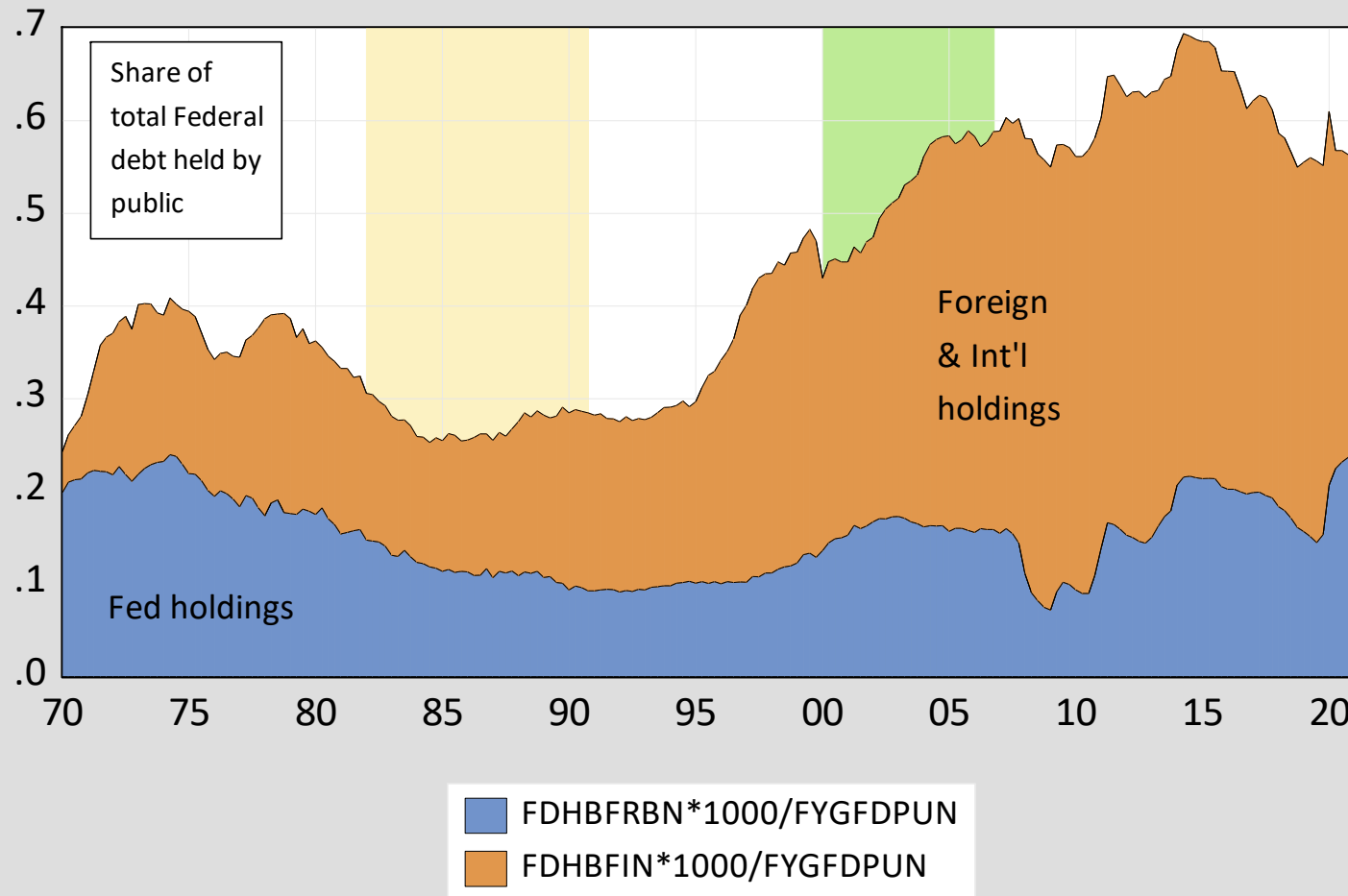
Shifts in Bond Demand

Not All Else Is Held Constant



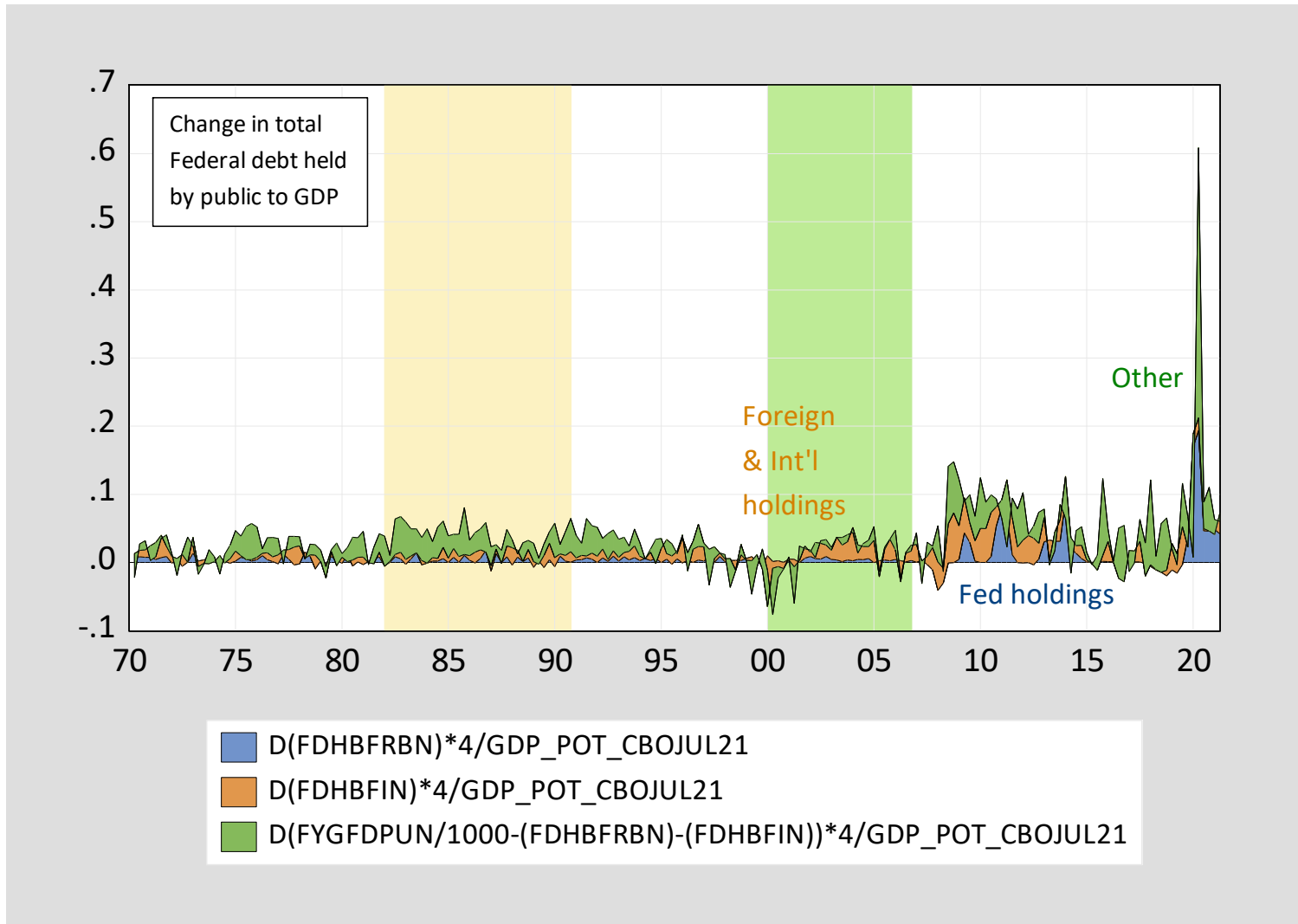
Federal debt held by public, foreign and international organization holdings, holdings of Federal Reserve Banks

Not All Else Is Held Constant



Foreign and international organization holdings, holdings of Federal Reserve Banks, both as share of Federal debt held by the public

Change in Federal Debt Holdings



Change in foreign and international organization holdings, holdings of Federal Reserve Banks, and other holdings, all as a share of Federal debt held by the public

The Future

CBO Projections

(under Current Law)

