

Lecture Notes in  
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476

Roland Demmel

Fiscal Policy, Public Debt  
and the Term Structure  
of Interest Rates



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# Fiscal Policy, Public Debt and the Term Structure of Interest Rates

**Series: Lecture Notes in Economics and Mathematical Systems**

The introduction of the thesis consists of four parts: first, we motivate our chosen macroeconomic setting by looking at some real world phenomena. For a better understanding of these phenomena, we argue that the mutual dynamic interactions between fiscal policy and financial markets need to be closely examined in a macroeconomic framework. Second, we review different strands of the economic literature in order to show that most of the literature has so far exclusively concentrated either on financial market dynamics or on fiscal policy issues. We conclude that a more integrated model setting is called for in order to explain the dynamic interactions observed in reality. Third, we discuss at length the economic assumptions underlying our model. This avoids multiple repetition later on. Finally, we outline the structure of the thesis and the objectives we pursue in the different chapters.

1. 1 Motivation Fiscal policy and financial market reactions are increasingly receiving world- wide attention. The most recent examples are the Maastricht criteria about fiscal control, the South-East Asia financial crisis and the resulting IMF policy stance, the high level of public debt in developed and developing countries and the effect on interest rates and economic growth. In contrast to the still underdeveloped theoretical literature on these dynamic links, finding empirical evidence that supports the existence of these links is not a very hard task.

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