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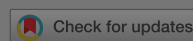
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Original Articles

An empirical investigation into the impact of US federal government budget deficits on the real interest rate yield on intermediate-term treasury issues, 1972–2012

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Abstract

This study provides new empirical evidence on the impact of the federal budget deficit on the real interest rate yields on intermediate-term debt issues of the US Treasury, represented herein by the ex post real interest rate yields on 3-year Treasury notes and 7-year Treasury notes. The study uses a two-stage least squares (2SLS) model to estimate the impact of the federal budget deficit on the real interest rate yield on intermediate-term debt issues of the US Treasury. The results show that the federal budget deficit has a positive and significant impact on the real interest rate yield on intermediate-term debt issues of the US Treasury. The impact is larger for 3-year Treasury notes than for 7-year Treasury notes. The results are robust to a variety of sensitivity tests. The study contributes to the literature on the impact of the federal budget deficit on the real interest rate yield on intermediate-term debt issues of the US Treasury. The study also provides useful information for policymakers and investors.

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exercised a positive and statistically significant impact on the ex post real interest rate yields on both 3-year and 7-year Treasury notes, even after allowing for quantitative easing and other factors. The study also considers the time period 1980 to 2012 and offers simple robustness testing.

Keywords:

ex post real interest rate yield

3-year Treasury notes

7-year Treasury notes

budget deficit

loanable funds model

JEL Classification:

E43

E52

E62

H62

Notes

- ¹ Arguably, at least some portion of the first federal budget deficit figure, 10.1%, can be attributable to policies during the Bush Administration, although Obama policies such as the ‘stimulus package’ were in play during this fiscal year.
- ² Cebula ([2005](#)) may be the most recent such study. However, he examines the deficit impact on nominal not real 7-year Treasury notes from 1992 to 2003 using quarterly data.
- ³ Indeed, only during the World War II fiscal years (FYs) of 19421945 has the federal budget deficit as a per cent of GDP exceeded those of FYs 2009–2012.
- ⁴ Moreover, it is noteworthy that two-stage least squares estimates for a number of alternative specifications of the basic model yield results for the impact of the budget deficit on the ex post real interest rate yield on 10-year Treasury notes that are consistent with those in [Tables 3–6](#). These results will be provided upon request.

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