Term Structure and Infinite Debt Rollover in General Equilibrium

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abstract

Using a general equilibrium model of a pure exchange economy with multiple bonds of different maturities, we design an infinite debt rollover scheme independent of the condition that the economic growth rate exceeds the interest rate, the so-called r < g condition. If term structures of interest rates exist and significantly change according to economic states, the government can form a state-invariant portfolio to gain debt revenue and carry out infinite rollover. Furthermore, we apply the infinite rollover scheme in a two-state model with the government and show that the fiscal stimulus under deficit financing is sustainable regardless of the r < g condition.