Dalton Rothenberger

Professor Herdelin

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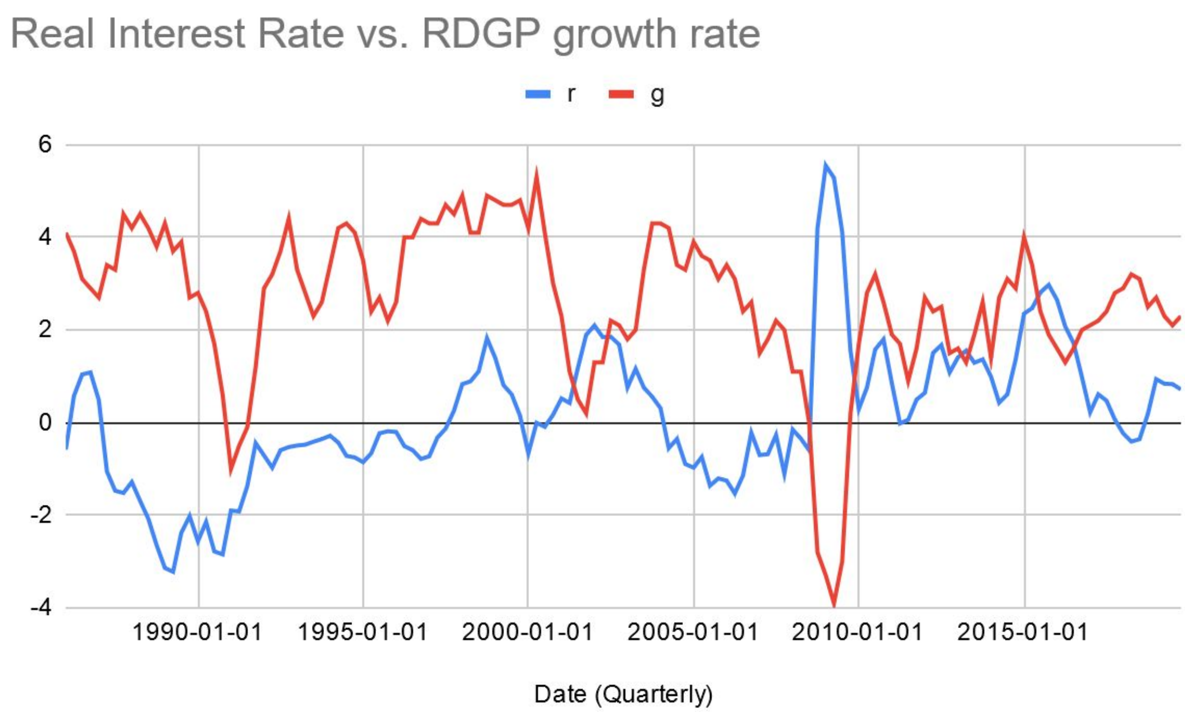
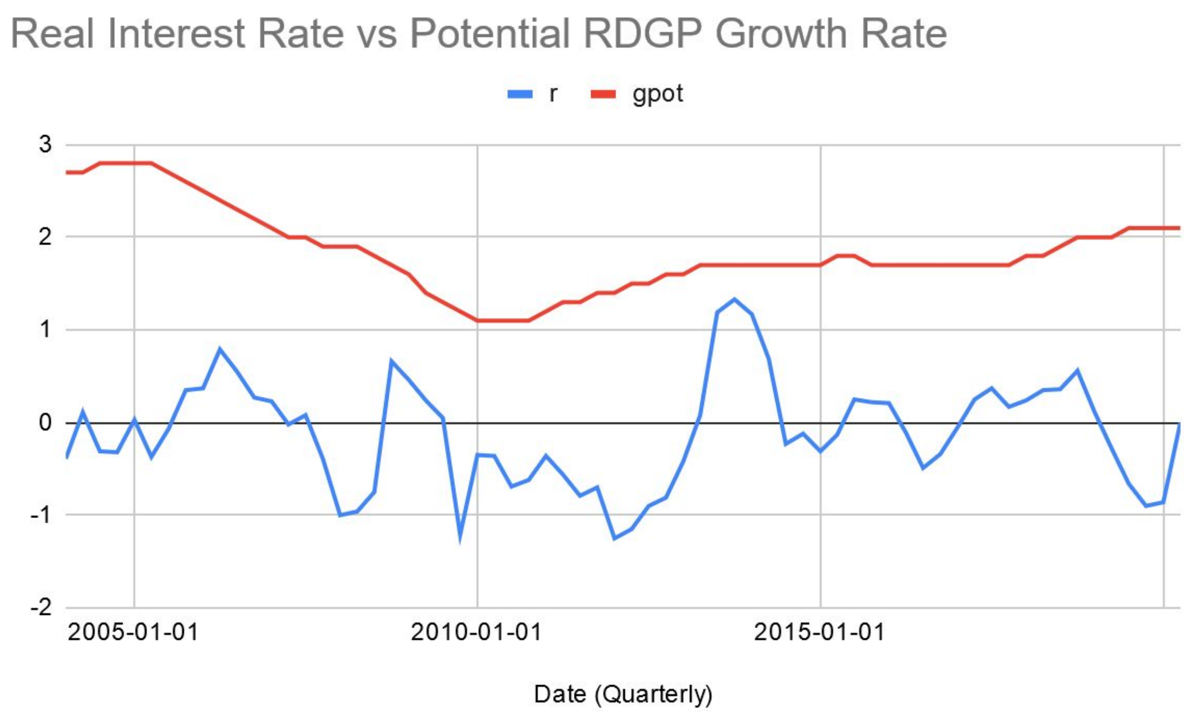
Debt vs Interest Rate




As we can see from this graph, in the past our debt has been sustainable because the RDGP growth rate (g) was always greater than the interest rate (r). We can also see that during the time of the Great Recession, this relation between RDGP growth rate and the interest rate actually flipped. Debt became unsustainable because there was a huge plummet in the RGDP growth rate and the interest rate spiked up.

In the most recent quarter we can see that our debt was sustainable. The interest rate was at 0.72 and the RDGP growth rate was at 2.3. We can also see on the graph visually that after the Great Recession, the RDGP growth rate has maintained its level of being greater than than interest rate for a majority of the time.




As of right now the future looks good. The real interest rate has been dropped to 0 while the Potential RDGP growth rate is positive so it remains greater than the real interest rate. Given the information we know about the coronavirus though this is likely to change as I imagine the Potential RDGP has not yet been recalculated due to the current circumstances so it remains positive to do the course of the economy from before quarantine restrictions were put in place. It is likely that the Potential RDGP growth rate will drop significantly once it has been adjusted for the coronavirus which will mean that debt will not be sustainable. However, once the quarantine restrictions are lifted and life goes back to normal there is a good chance that Potential RDGP will return to normal so then debt will go back to being sustainable.