Interest Rates, Bond Sales, and the IS-LM Model

Abstract
How are interest rates, private investment, and real output affected by government bonds sold to finance a deficit or an increase in spending? Given the importance of this issue, one would expect the leading macroeconomic textbooks to contain a careful analysis of the conditions under which government bonds sales will, or will not, crowd out private investment. Surprisingly, this is not the case as most texts ignore the matter altogether. In this paper, we sort through these issues, pointing out areas where the discussion of the economic consequences of government bond sales is confusing, incomplete, and, in some cases, incorrect.