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General Equilibrium Perception on Twin Deficits Hypothesis: An Empirical Evidence for the U.S.

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Abstract:

From the general equilibrium perspective, this study proposes the inclusion of private savings and investments in examining twin deficits hypothesis. Using U.S. data, the empirical results support twin deficits hypothesis but the budget deficit's elasticity is decreasing from unity to 0.43.

Key words: General Equilibrium; Government Budget Deficits; Current Account Balance; U.S.

JEL classifications: *F32; H62*

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