

OPTIMAL GOVERNMENT DEBT CONTROL: EXPLICIT FORMULA FOR THE OPTIMAL DEBT CEILING

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Motivated by the current debt crisis in the world, we consider a government that wants to find the optimal control of its debt ratio. The debt generates a cost for the country. The government can reduce the debt ratio, but there is a cost associated with this reduction. We obtain a solution for the government debt problem. In particular, we obtain an explicit formula for the optimal debt ceiling.