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**POSITIVE CORRELATION BETWEEN GOVERNMENT EXPENDITURE  
AND REAL INTEREST RATE: TESTING RAMSEY MODEL BASED ON  
AMERICAN AND CHINESE DATA**

**Abstract:**

In the classical Ramsey Model, temporary increase of government expenditure will raise real interest rate. By using the data of American expenditure on national defense and the interest rate of 10-year constant maturities from 1959 to 2002, the paper points to the conclusion from the empirical analysis of positive correlation between government expenditure and real interest rate that temporary increase of government expenditure will surely lead to a rise in real interest rate.

**Keywords:**

Ramsey Model; Government Expenditure; Real Interest Rate

**JEL Classification:** B22, E27, H50