Annotated Bibliography: Government Regulation of the Economy

Acemoglu, Daron, Mikhail Golosov, and Aleh Tsyvinski. "Dynamic Mirrlees Taxation under Political Economy Constraints." *Review of Economic Studies* 77.3 (2010): 841-881.

Acemoglu, Golosov and Tsyvinski discuss the major source of government revenue, which is taxation. In the article, the authors describe that the government gets the greatest percentage of its income from taxes provided by tax payers in a certain country. Taxation is a policy that implies that citizens or residents of a country contribute money for social services to the government through a well-coordinated taxation mechanism. Taxation affects individuals' and firms' consumption rate. Different countries adopt different taxation policies; however, there are similar ways of conducting tax cut: it can be fulfilled through raising the minimum amount that is taxable in an economy, reducing the percentage of taxation or even eliminating the entire amount of taxes.

For the government, one of the ways of getting its investment money from taxation is using taxation policy to influence the current investment in the economy; when the rate of taxation is reduced, investors are attracted to an economy; as a result, they pay taxes on their profits, and the cycles is repeated. One of the hindrances of foreign investments is high taxation rates; if tax rates are reduced, then investors will be attracted by the favourable business conditions and invest in the economy. Investments increase the rate of a country's economical development: particularly, the employment rate improves; a larger tax net is created, and consumption increases. The amount of money used in public finances is the money generated in the economy from taxation and other sources; it is the money that the government should attract for various needs so that budgetary and other plans can be accomplished.

Attanasio, Orazio P., and Guglielmo Weber. "Consumption and Saving: Models of Intertemporal Allocation and Their Implications for Public Policy." *Journal of Economic Literature* 48.3 (2010): 693-751.

In their article, Attanasio and Weber discuss the relationship between saving and consumption in a country. The authors emphasize that the amount of income that a consumer gets at one particular point can be put in different use (the main classification of money use is either saving or consuming). Income is the total amount of resources that an individual gets; it is a product of all his/her earnings. The following equation describes the relation between the abovementioned elements: I = S + C, where I is income, S is savings, and C is consumption. Savings are utilized in various ways; one of the most common approaches is investment in various projects of the economy. Therefore, it can be described as S (Savings) = I (Investments).

Given the income is constant, in case consumption increases, savings are expected to reduce, and the rate of investments in the country correspondingly decreases. On the other hand, if consumption decreases, there is an increase in investments. When the income of an individual or a firm increases, the effect on investment is dependent on the marginal rate of consumption: if an increase leads to a proportionate increase in consumption, then the effect is the same to investment.

Depending on the state of the economy, the government has the tools of ensuring the equilibrium of saving and consumption, which facilitates the economical growth: if the economy consumes everything it produces and earns, then the growth rate is limited since there will be no savings for the future investments.

Demirbas, Dilek, and Safa Demirbas. "Role of the State in Developing Countries: Public Choice versus Schumpeterian Approach." *Business & Economics Research Journal* 2.1 (2011): 15-30.

In their article devoted to the analysis of the role of state in developing countries, Dilek and Safa Demibras argue that one of the government’s functions is planning the national and international developmental platforms. Based on the fact that forces of demand and supply control prices in modern capitalist economies, government intervention has been limited to provision of social services. Prices of goods and services as well as cost of production are determined with minimal government intervention. However, a perfect capitalist economy can only exist within an ideal model; since the real life situations deviate from this condition, there are always some governmental controls, rules and regulations applied in economic regulation. The government controls the performance of the economy through fiscal and monetary policies aimed at changing or controlling certain economical factors to enhance or limit production. Government participation varies among countries: particularly, developing countries require higher involvement than those developed.

The authors also discuss the role of a Foreign Ministry that has the responsibility of maintaining good international relations with different countries. To ensure that a country participates in international trade effectively and to reduce chances of international rivalry, it should ensure that there are good international relations.

The journal makes a significant contribution to studying governmental regulations and pioneering change on the governments. The authors of the article emphasize that developing countries have the potential and are able to attain high developmental rate if a government is willing to introduce changes and advance economic development.

Guender, Alfred V., and David R. Gillmore. "Practical Monetary Policies." *International Finance* 13.1 (2010): 25-53.

In their article devoted to the aspects of monetary regulation, Guender and Gillmore argue that governments play an important role in stimulating economical growth and managing the finances in the economy. According to the authors, in a broad sense, they use monetary and fiscal policies for contraction or expansion reasons. When regulations are conducted, they may affect or benefit the economy in the short and the long run. A financial market is one of the areas for the government to exercise its controlling power; the result of this effort impacts the life of the entire country. Financial industry effects on the economy are rather indirect than direct; they concern changes of interest rates, inmobilization of resources, giving out credit, hedging out risk, pooling and sharing of resources.

Investors, small businesses and large multinational companies are affected positively or negatively depending on the governmental regulation.

In their article, the authors state that the government is expected to control public finances through the policies it implements; it has to ensure that spending in the economy does not trigger inflation and at the same time is sufficient for collection of taxes needed for implementation of different programs. The article emphasizes the idea that the government can collect finances from domestic sources, after which the country can enjoy economical independence and respect from other countries; this facilitates domestic and international investments in the country.

Gulzar, Saqib, and Feng Hui Xiao. "A Study on the Problem of Deficit in the Balance of Payments: The Case of Pakistan." *Interdisciplinary Journal of Contemporary Research in Business* 2.6 (2010): 371-382.

Saqib Gulzar and Feng Hui Xiao describe the situation when a country faces the economic and balance of payments deficits. The deficits affect the whole economy, and the government is expected to take strategic decisions to ensure that these negative tendencies are eliminated. Under the conditions of the economic deficits, the government is not able to finance all budget activities within a particular year or another period. It may be reasonable to issue some government bonds and bills, which are offered at a cost to the public. A government may also decide to sell its products to attract money for financing the deficit. Thus, the government's task is to take the optimal decision based on the analysis of all significant factors.

The authors also discuss the balance of payments (B.O.P.) that reflects the results of a country's international trade. For a healthy economy without a deficit in the balance of payment, the amount that characterizes import should be lower than that of export. The government has the key role in facilitating an increase of export and reducing import.

Particularly, to stimulate exports, the government offers beneficial incentives to exporters. For example, one of such incentives may be introduction of subsidies for production. To reduce importation, the government can increase the import charges and empower local companies to produce goods that are currently imported. When a country has a healthy balance of payment, its currency is strong, and the economy produces goods and services that are competitive in the international markets.

Keyong, Dong, and Cui Peng. "The Role of Government in Social Security." *Public Performance & Management Review* 34.2 (2010): 236-250.

In their article, Keyong and Cui observe such role of the state government as planning and distributing public finances to different projects. When fulfilling planning of public finances, the government should understand that resources are limited and unevenly distributed in the country and follow the principle of equitable distribution of the available resources. Due to various geographical and historical factors, resources in a country are not equally distributed: some regions are characterized with rich allocation of natural and man-made resources in a country while other territories are poorly supplied with them. This misbalance becomes a ground for gaps in social, economic and sometimes political spheres.

The government should ensure that the country has well-distributed resources in order to ensure harmonious economic growth in all regions of the country. The given differences predetermine the necessity for the government to direct resources to the areas that are relatively disadvantaged. These territories are given priorities in the efforts so that they are able to intensify their economic development and equal with other areas. A country that faces a high rate of inequality is most likely to be in recurring political disputes, as some members of the society feel oppressed by the state.

In the past, social rivalry in countries (for example, during the period of French revolution), was provoked by inequality and oppression in the economy. To avoid a repeat of such instability based on economic misbalances, the government should ensure equality in the economy. To the great extent, it can be advanced through indirect measures, such as education, social amenities, and employment; when the economy has equal distribution of resources, the government gets the additional source of funds, as the projects will generate finances that are taxed by the government for further distribution.