


## Types of government intervention pdf

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The new form of government intervention in the era of global imbalances illustrates how the role of government has recently evolved, particularly by focusing on the 2008 financial crisis. First, we analyze the government's responsibilities to trigger the crisis by inflating the supply of loans. We are discussing the expansionist monetary policies of developing countries, in many cases aimed at protecting their exports, thereby channelling huge flows of savings into developed countries. We then set out the role of U.S. housing and monetary policy as well as those of other countries, especially with regard to financial deregulation. Secondly, we are dealing with some of the most important aspects of government intervention in the aftermath of the crisis. We show the negative impact of a number of strategies, particularly in the field of accounting, which have contributed to a growing trend towards inefficient distribution of available capital, where excessive weight has been placed on low-century assets, leading to a slowdown in economic growth. Finally, we use a simple theoretic model of the game to emphasize the need for an internationally coordinated financial regulatory policy. Keywords : Credit proposal, financial crisis, financial regulation, Governments

1A inter-second historical analysis of the level of government intervention in economic affairs emphasizes significant fluctuations. However, the difference in different periods lies not only in the ideological platform of the leading political coalition in power, but also in the change in the set of exogenous constraints faced by politicians, which leads to the fact that decisions often contrast sharply with the more or less explicit ideological positions expressed by political groups in power. 2A Comparative analysis of public spending shows a well-known difference between Europe, with a significant government weight, even more scalable as a result of the recent crisis (in 2010, public spending in the euro area is expected to be around 50.2 percent of GDP), and the United States, where the public sector, despite recent expansion, remains easier (with public spending currently projected to exceed 40% of GDP in 2010). 3In the response to the dramatic changes associated with technological progress, the growth of developing countries and real and financial integration, the role of governments around the world is changing rapidly. National strategic policies aimed at stimulating or supporting the country's economic development are becoming less effective as a result of the wider variety of options available to companies and households, as well as massive relationships between different geographical areas. In this paper, attempts to describe the direction of some of these In particular, it discusses various forms of government intervention before, during and after the global crisis of 2007. We illustrate export-oriented monetary policies of developing countries have contributed to the global imbalances that led to the financial crisis. We then analyze the rules adopted by the developed countries that contributed to the transfer of the crisis to the real economy. We introduce new participants in international industrial policy, sovereign wealth funds, and conclude with the importance of a regulatory framework based on international coordination as a way to prevent future financial crises. 4 This section illustrates the recent complex dynamics of financial markets characterized by savings in developing countries and the accumulation of debt in the United States. The role of monetary policy in developing countries in perpetuating the imbalances that underlie the explosion of the financial crisis is emphasized. 5Seemable trade imbalances developed long before the financial crisis. Figure 3 shows the geography of real streams for 2007 - a paradigmatic situation that has been going on for several years. Chart 3 - Geography of real trade flows in 2007 Source: International Monetary Fund data Mapper 6Red area point to trade surplus, green zone trade deficit. In both cases, more intense colors indicate a larger balance. 7 Map immediately shows the direction of the streams, delineating two macroregions. The trade surplus comes from exporting countries of goods and services, mainly inexpensive goods (e.g. China) and raw materials (e.g. Latin America and Russia). The trade deficit affects the United States and a number of European countries, particularly Eastern Europe. This situation is rooted long before the turn of the century, as shown in Table 1, where national accounts data are used to assess this phenomenon in the medium term. Table 1. Source: IMF, World Economic Outlook 2008 9Data on the use of surpluses highlight the growing role of foreign exchange reserves. In China alone, reserves increased by \$664 billion between 2000 and 2005, while the total increase was 140% between 2002 and 2007 (Butt et al, 2008). Chinese dollar reserves exceeded 3 trillion in the first months of 2011. This issue deserves careful analysis aimed at capturing both the motivation for the accumulation of reserves and its impact on the preservation and distribution of savings in developing countries between the private and public sectors, as well as new opportunities for the countries that hold them. The reasons for the accumulation of reserves by developing countries can be roughly classified into two broad categories: preventive and strategic, i.e. exchange rates. Precautions are related to the need to own a resource - foreign currency, or, traditionally, gold - to protect the national currency from currency crises that could threaten to threaten reduce its cost. Reserves are important in cases of speculative attacks on currencies, as is common, as was the case with the 1996 crisis in south-east Asia. In addition, countries that export raw materials, the prices of which are denominated in dollars and whose rate, in turn, is pegged to the U.S. dollar, hold a large number of dollars to hedge against currency fluctuations. 10 The more interesting for our work are the strategic reasons associated with the artificial maintenance of the value of the national currency at a low level in order to increase the competitiveness of exports. When a country accumulates foreign exchange reserves for strategic reasons, its main purpose is not to use them immediately to protect its currency; the use of foreign exchange reserves partially blocked and managed in accordance with the profit maximization criteria of the so-called Sovereign Wealth Funds (SVF) appears to indicate the prevalence of strategic motivation caused by the recent wave of foreign exchange reserves accumulation. It is well known that in the absence of monetary policy measures, the balance of payments surplus (with exports exceeding imports) is expected to increase, thereby increasing its value. In turn, the increase in value will lead to higher prices for exports abroad (which will also lead to cheaper imports), which will help to restore the trade balance. On the contrary, monetary policy of foreign exchange accumulation slows (or even cancels) automatic rebalancing. The growth of demand for the national currency, caused by a sharp increase in exports, is on the counterbalance to the growth of demand for foreign currency from the central bank. This ensures that exports are maintained. From a financial account perspective, the remaining trade surpluses are reflected in the remaining financial surpluses: citizens of developing countries (more than D.C.) are net suppliers of funds abroad. Monetary policy of stockpiling, however, requires the pre-issuance of local currency, which must be immediately converted into foreign currency. The resulting increase in the country's monetary base leads to inflationary pressures (or, for example, in sterilization policies, higher domestic interest rates, leading to lower investment). Monetary policy, therefore, through the channel of inflation (or through its impact on interest rates under sterilization policies) provokes the movement of resources from the private to the public sector by reducing private savings and transferring them to the public sector. 11 These policies are combined in current historical circumstances with strong household incentives to save in the County partly due to a willingness to insure against future risks in an era of uncertainty, such as globalization (Rajan, 2006). Globalization can indeed help private savings for a variety of reasons, including high labour mobility, lack of social protection and the demographic trend of an ageing population. The combination of a natural trend of rescue within D.C. with monetary policy stockpiling has spawned, in stark financial contrast to the canonical neoclassical model of international trade<sup>1</sup>, financial flows originating from poor countries and eventually to the rich. 12 The propensity of developing countries, especially Asia, to save and own foreign currency is accompanied by a tendency to borrow from developed countries, particularly the United States, as is clear from Figure 4, which is analogous to the real financial flows defined in Figure 3. Figure 4: U.S. Deficit Source: Goldman Sachs 13 Chart, published in 2005, highlights that the U.S. has consistently maintained a passive trade balance over the past forty years. However, although the imbalance was mainly used to finance investment until the mid-1990s, the situation has changed since then. 14As of American households savings have become negative in recent years, the imbalance has gradually spread to support part of this private debt, which is largely financed, as already noted, by developing countries. Thus, the United States has seen strong growth in private consumption, which is said to be largely financed by large Chinese savings and not absorbed by the local economy. 15 American households have suffered debts on very favourable terms, not only because of the aforementioned large savings stock, but also because of a different feature of the current economic situation: a widely documented stagnation of investment. As a result, weak demand for loans from enterprises in the period immediately preceding the crisis has resulted in a double effect of lowering the long-term equilibrium interest rate, as well as directing savings for households that have thus benefited (especially in the US) from very cheap liquidity. 16 The simultaneous emergence of sustained growth, low interest rates and low inflation is a new and remarkable phenomenon that calls into question the traditionally positive relationship between interest rates and economic growth. 17As savings, persistent monetary policies of developing countries, together with a high propensity to consume, import and bear debt in Western countries, laid the groundwork for a subsequent crisis. However, a number of political and technological factors that have taken place in developed countries have also made significant contributions. At least four of them are of particular interest for the purposes of this study: regulatory changes taking place in the global financial system, progress, U.S. monetary policy (clearly illustrated by Domenico Siniscalco, 2008), and but not least - the guarantees and incentives provided by the U.S. government for home buyers. 18All of these four aspects, mainly in the United States, has further facilitated the lending, increased supply, thereby lowering the interest rate. Households have worsened their debt situation, increasing the likelihood of default. This has caused a surge of systemic risk to the Western financial world, and the United States in particular. 19 We are now studying in more detail each of these factors, starting with the financial deregulation widely discussed in the economic and political debate, perhaps to the detriment of other structural issues (global imbalances already mentioned in section 2) and economic policies (public policies to provide financial incentives to home buyers) that deserve special attention. The 20Thigneds of liberalization were probably much more comprehensive in the financial sector than in any other sector. This process is based on two implicit assumptions: the relative effectiveness of financial markets and the inefficiency of the regulatory body. Such assumptions can be replicated for various other sectors; however, financial deregulation is likely to face less public resistance than deregulation in other sectors. Citizens did not immediately perceive the effects of liberalization policies; moreover, there were few economic groups hostile to him. The main points of deregulation are the gradual removal of barriers to capital inflows and the removal of regulatory barriers between the different classes of intermediaries, who have been given the opportunity to diversify their activities in the various financial services sectors. The Gramm-Leach-Bliley Act of 1999, by repealing the more restrictive Glass-Steagall Act, allowed financial institutions to integrate into commercial banking, investment banking and insurance. 22 At the same time, private banks were allowed to own risky assets, including difficult-to-operate financial derivatives, as a result of complex financial transactions: banks operated on a principle confirmed by Basel II and Basel III rules that the banks themselves are better able to assess their own risk ratios than regulators. Derivatives have exacerbated the problem of asymmetric information since the onset of the crisis, leaving various financial institutions to or from bankruptcy. 23Deregulation advocates the emergence of a wave of financial innovation. In particular, the combination of these two elements allowed banks to collect more and more information about potential borrowers, thereby expanding the market for potential mortgage underwriters and that, while in some cases has increased the potential for value creation, and therefore profits, also tend to increase the overall systemic risk. The new tools available to banks require changes in management strategies. The attempt to improve risk-sharing has led to the phenomenon of securitization of risky assets, banking practices, which have been growing steadily since the early 1990s until the time leading up to the onset of the crisis. At the end of 2007, securitized assets amounted to \$2.4 trillion, and the volume of assets secured by assets<sup>2</sup> (collateral debt, CDOs) reached \$502 billion (see Jiangli and Pritser, 2008). Securitization dealt a significant blow to the profits of banking institutions, inevitably abruptly ending as the crisis began, that is, at the end of 2007, when the secondary market of debt securities was disrupted. The practice of securitization generated by financial innovations and deregulation opportunities helped to distribute risks in a way that was then considered effective, leading to a further increase in the supply of credit. At the same time, it has reduced market transparency, thereby increasing the vulnerability of buyers of securities (including banks) to sudden negative changes in expectations, and therefore is particularly prone to crisis. 24Mani observers (Siniscalco, 2008) explain the expansionist monetary policy pursued by the US Federal Reserve, and then under the chairmanship of Alan Greenspan, a significant role in maintaining low interest rates and therefore at the beginning of the crisis. While many, including Greenspan himself, believe that tightening monetary policy would be useful for putting a strain on financial markets, it should be noted that the Fed's monetary policy was based on criteria, allowing the interest rate to approach the market value of the long-term interest rate (which, as mentioned above, was very low), as outlined in the intersection of supply and demand for loans. Therefore, the responsibility of the U.S. central bank for lowering interest rates can be considered only partial. 25Finance, a special American social policy designed to encourage home purchases, and indirectly, of course, the entire construction industry, involved two very large state-sponsored organizations: the Federal National Mortgage Association (Fannie Mae) and the Federal Chief Credit Mortgage Corporation (Freddie Mac). Fannie Mae and Freddie Mac, whose massive commitments in 2007 reached 40% of U.S. GDP, responded, through a political mandate, to refinance mortgages and buy some of them. As Frame and White (2005) points out, this is the basic American housing policy<sup>3</sup>. Both companies were indirectly financially supported through a usage guarantee funds for their activities. The size of these two companies, along with the

guarantees provided by government participation, has contributed to lower interest rates on loans in these categories, in accordance with their charter, where they were involved: reliable estimates (see Frame and White, 2005) indicate a 0.25% impact on the interest rate reduction on the loans they are back. 26 The combination of low interest rates and significant debts incurred by the private sector, especially American households, with developing countries has created the conditions for the crisis to begin. Indeed, the availability of abundant liquidity at a low price in the United States has led to significant leverage not only on households but also on credit institutions. Thus, they used these resources for loans (so-called subprime) also for households that would not be able to provide adequate guarantees, thereby putting at significant risk of insolvency under a well-known data transfer mechanism involving financial institutions. Lower mortgage prices, i.e. housing, have been an incentive for borrowers to default on the loan (since the cost of repayment of the mortgage was higher than the cost of the basic home). As a result, a series of defaults filled the assets of banks with low house values, leading to a devaluation that worsened their balance sheets. In addition, difficulties in assessing complex mortgage-backed securities have exacerbated the problem of asymmetrical information and, through the spread of negative expectations, have infected even solid institutions that do not carry toxic assets. As a result of these shocks, some financial institutions around the world were ultimately saved by their Governments; others collapsed. Mario Deaglio (2008) estimates the cost of bankruptcy at 2 million jobs lost in the United Kingdom alone. 28 The crisis quickly spread to the real economy. This has led to a significant slowdown in growth, which in 2008 became negative in almost all developed countries and declined, although it remains positive, in developing countries. 29 The United States also experienced a slowdown: the housing market's decline was intense and widespread across the country. Similar price falls have not been recorded since The Second World War. Signs of a trend reversal for 2010 were recorded at the end of 2009. Figure 5 shows the structure of house prices, covering not only generally more modest subprime-financed homes, but also other types of housing, backed by primes issued by financially sound persons. 30 The following charts of 6a, 6b and 6c, related to 2007, 2009 and 2010 respectively, show a significant slowdown in growth. Chart 6a - GDP growth between 2006 and Chart 6b - GDP growth between 2008 and 2009 Chart 6c - Estimated GDP growth between 2009 and 2010 31Red areas point to positive real GDP growth, with a darker red color indicating higher growth; green areas indicate moderately positive growth (dark green) or negative growth (light green). The 32A comparison between 2007, 2009 and 2010 data clearly shows the crisis of 2009, which showed the worst negative growth rates since World War II in developed countries and then rebounded in 2010. 33 According to preliminary estimates of the International Monetary Fund, the 2010 rebound was less pronounced for Italy (1%) than in other major European countries (France, 1.6%, Germany, 3.3%), as well as in the UK (1.7%), the UNITED States (2.6%) and the United States (2.6%). Although the data appear to be converging that the worst point of the crisis is over, the data for Italy confirm the Italian stagnation of productivity. 34 Financial crisis spread from the financial world to the real world through about two channels: household credit on the one hand and bank credit on the other. and intermediate credit intermediaries. 35 This section separately analyzes each of the two transmission channels and focuses both on the choice of policies regarding the regulation of financial intermediaries that advocated distribution (as a possible example, in the United States, the rule that changed the supervision of banks by some financial intermediaries from the Federal Reserve), and various government actions to oppose it. 36Business, especially riskier, suffers from greater capital shortfalls during the crisis as a result of reduced household savings inflows. Cautious investor attitudes and funding restrictions on firms are partly motivated, even in the context of perfect information, by a business with less satisfactory productivity prospects due to reduced demand. However, imperfect information plays an important role here and in a recession it further exacerbates the tendency to lend directly to safe institutions. 38In as an illustration of how savings drainage works, consider the market in the usual (i.e. not in a recessive) state. Different credit requirements are assessed by credit providers, each of whom chooses the best between risk and profitability, taking into account its specific risk profile. In this context, effective financial institutions are needed to guide consumers to appropriate investments, consistently with each individual's appetite for risk. In an efficient and smooth market, entrepreneurial activities that bring value, and therefore higher well-being, are the ones that lead to maximum profitability: thus, in a liquid system savings for activities capable of generating the highest added value, consistently risk-taking, thereby providing a satisfactory level of economic growth (spurred by riskier investments). 39 During a financial crisis exacerbated by asymmetrical information, households have more limited information about the effectiveness - and, as a result, of riskiness - of both credit-requiring companies and intermediaries who could support them in choosing. In addition, the generalized loss of confidence associated with crises reduces the range of activities they are willing to consider for potential investment. In the face of this uncertainty, many tend to prefer relatively safe, low-yield investments; investors consider companies to be riskier only if they are close to them, that is, only if they have direct knowledge of them. As a result, risky investors of companies have little direct knowledge (which they might have received from a financial intermediary at the time of economic expansion) and as a result are penalized. 40Overall, the uncertainty that prevails in the recession shifts the investment composition, in favor of low-risk activities associated with lower returns, as well as the prospects for lower growth, as well as (e.g., government spending of safe countries, financed by large amounts of savings transferred during the crisis, thereby lowering the interest rate on debt), to the detriment of the risky, and usually innovative sector/firms capable of generating growth. 41 It is well known that banks reduce total lending during the recession. This is partly due to the direct reason that the economic downturn, due to the decline in the expected return on investment of firms, also leads to a reduction in the set of loans, potentially beneficial to the bank. The decision on the amount and type of projects financed by banks can indeed be conceptualized according to the shadow value of bank capital, which measures the capital deficit relative to the credit opportunities with positive NPS. In other words, by simplifying the assumption that all financial projects are equally risky, the shadow value of bank capital measures the marginal net current value, i.e. the marginal value above which projects are financed and below which they are rejected. The higher shadow value of bank capital indicates a higher relative deficit and, as a result, more serious underinvestment problems (see Kashapi and Stein, 2004). 42Changes in the shadow value of bank capital are the result of interaction between the prevailing phase of the business cycle, individual choice and regulatory policy. Under conditions the downturn this value varies for two counter reasons. It tends to decline as a result of the decline in the average expected cost of projects, projects, The amount of credit incurred permanently; it tends to increase due to a reduction in the supply of deposits for the bank, which increases the value (or even limits) of capital available to the bank, ultimately reducing the amount of loans incurred by banks. 43Why of these two effects prevails is controversial, and has been the subject of extensive empirical research. However, empirical literature does not provide a clear answer, as the results cannot isolate the impact of regulation on shadow value in an economic downturn. 44Regulatory policy really plays a major role in influencing the shadow value. 45 Effective regulation should probably maintain some stability in the shadow meaning in order to mitigate (or at least not further exacerbate) the credit crisis during the recession. However, recent changes in capital market regulation have been influenced by a combination of two factors that many observers believe (see Kashapi and Stein, 2004) have contributed to the increasing procyclicality of shadow value and, consequently, investment. They are, on the one hand, in the transition to stricter capital requirements imposed by Basel II rules (and the recent Basel III rules, which, however, should not be fully effective until 2019), and on the other hand, to the transition from valuation of assets based on historical costs (integrated with possible devaluation or revaluation) to a mark-to-market accounting scheme in which assets are valued in accordance with their fair value. 46In the crisis, the shift to a fair value approach tends to reduce the capital of banks, causing a greater devaluation of assets than the historical approach to value, and therefore huge economic losses. While the mark-to-market criterion can be seen as more clearly reflecting the financial position of banks, it may also force banks to limit the supply of loans beyond the level they choose in the absence of the Basel rule, or in accordance with historical cost accounting rules (less stringent with regard to asset devaluations and, as a result, causing less stringent capital restrictions in the face of economic downturn) if it is combined with strict capital requirements. 47 The open question is whether capital requirements caused by regulation are a mandatory restriction on banks' decision-making on the supply of loans. This empirical problem has not yet been investigated. 48Kashyap and Stein (2004) conclude that literature supports the result that the shadow cost of capital increases during recessions. 49 After analyzing how capital use changes during an economic downturn, it is important to understand where capital is located and which organizations are responsible for managing it. 50 We celebrated in that one of the main factors in the real crisis is the distribution of excessively high portions of savings to low-risk activities. Risk. tends to reduce the resources available to risky enterprises, often innovative and able to generate growth. However, it remains true that the use of financial resources primarily depends on the decision of those who manage them. Hence the need to identify investors or a class of investors who at different times manage significant financial resources and the criteria they follow. 51 Analysis of the weight of different categories of investors highlights the growing role of sovereign wealth funds, which will be considered in this paragraph both because of their essential function in the current global paradigm and because they represent a new form of government intervention in economic issues. 52SWFs (sovereign wealth funds) come from the foreign exchange reserves of developing countries (DCs), mostly Chinese. Some of these savings, as discussed in section 2, are intended to combat the sudden devaluation of the currency, and the other is to deal with political/strategic plans to improve the competitiveness of exports. 53This second group is managed on the principle of maximizing profits through SWFs. According to the latest estimates, SWFs control between 2 and 3 trillion dollars (Beck and Fidor, 2008)4, emphasizing constant - and consistent - growth. 54Sovereign Wealth Funds paradigmatic of some of the effects of the financial crisis on the basic views of different classes of investors. Prior to the 2007-2008 crisis, SWFs were generally blamed for a lack of transparency, low efficiency due to public ownership and generating market distortions as a result of the strategy, possibly not in line with profit maximization. Following recent changes in the financial arena, SWFs are increasingly tipped as examples of virtuous financing, with minimal resort to financial leverage and focused on the long term rather than on short-term speculation (Siniscalco, 2008). 55SWFs have played a crucial role in mitigating the negative effects of the crisis, through rescue, recapitalization and other means, several financial institutions, including Morgan Stanley (recapitalized by the Chinese Investment Company) and UBS. 56Sovereign wealth funds, despite concerns motivated by their special status, including public ownership (see, on this aspect, discussion in Cuadrio Curzio and Miceli, 2009), seems to be advocating for a fluid and efficient financial market. At a time when many investor groups seemed to be focusing on short-term speculation, sovereign wealth funds have contributed to providing financial markets with a long-term vision motivated by the long-term goals of governments financing them. Second, SWFs managers are generally competent, and as a result of their huge portfolio, SWFs can send significant to acquire information. This softens information problems in financial markets have contributed to a less distorted distribution of funds during the current crisis than would otherwise have been in favour of sufficiently risky financial activities. 57 In conclusion, government intervention through THE SVF can be seen as having two good effects: reducing asymmetrical information and, consequently, reducing distortions associated with imperfect information, along with a long-term horizon. 58 The scenario outlined above underscores the need for an international regulatory framework. Using the official model, this section shows why, in the absence of international coordination, an effective result cannot be achieved. 59 In particular, the simplified model of game theory presented in this paragraph illustrates the profile of incentives for regulatory action by both each individual State and a group of countries coordinated by a supranational organization. We show that coordination is necessary to achieve a regulated equilibrium. Individual countries have no incentive to regulate unilaterally: regulation reduces capital flows to the country, and the benefits of its adoption are always lower than its costs. 60Assume that the country has huge savings and decides to abandon the current consumption in favor of future consumption: referring to the current example, this is the situation that China is going through. Decisions on consumption and savings may be driven by private choices, such as those mentioned in section 3 for Chinese affairs (high labour mobility and lack of social protection, as well as the demographic trend of an ageing population). Alternatively, they may be guided by government policies aimed at protecting exports, which can reduce consumption, as is the case in the current Chinese economic situation. Country A is causing an increase in the supply of loans, which reduces the long-term interest rate in the absence of political measures. With savings occurring in Country A and a subsequent trend towards lower interest rates, other countries may choose among two possible reactions: adjust the positive economic situation by keeping the interest rate close to equilibrium, without monetary policy measures, or confront the situation using the available monetary policy instruments to raise the short-term interest rate. Choosing resistance leads to an interest rate increase above the market equilibrium level. 62Consider of the two countries, B and C, which must decide how to respond to the increase in the supply of funds taking place in the country A. The decision to adapt increases the likelihood of a financial crisis: indeed, the widespread use of loans, fueled by very low rates, strengthens that could lead to a crisis through the channels outlined in previous sections. 63 In particular, model prescribes that the crisis explodes if any country B or country C, or both decide to adapt. Therefore, the crisis cannot be limited: the prevalence of low interest rates in one of the two countries is sufficient to trigger the spread of infection to another country. This assumption is justified when one considers the current high level of financial integration, both as a result of real and financial integration: if the widespread use of loans, spurred by low interest rates, contributes to the crisis in a country that has adapted - say, B, it entails the devaluation of assets in B. But even firms located in country C, which have invested in country B, will suffer losses that will reduce their assets. will identify economic losses that will ultimately diminish their financing prospects. As a result, the crisis also affects C. 64. Turning to the analysis of gains as a function of the accepted monetary policy, the placement strategy is beneficial in the short term. In fact, it allows households and businesses to pay for cheap credit services, thereby taking advantage of the financial resources originating from country A. On the contrary, if a country raises the interest rate, it does not take advantage of the opportunities offered by country A. In the short term, thus a gain for the country that accommodates is given , while for the country that resists, it is given, with . Moreover, in the short term, the profits for a favorable country are greater if the other country resists: in this scenario, the resources of Country A will turn massively into a country that accommodates. If one country holds, while the other resists, its winnings are marked, with . In the long run, however, very low interest rates increase the likelihood of a crisis in one country and, therefore, through the above-described infection mechanism throughout the economy. In the event that at least one of the countries resisted, long-term profit (here is marked as period 2) is given, while if at least one of the two countries has adapted, the profit is given where qgt;, because if one country can accommodate, the crisis breaks out. The stylized winning matrix for countries B and C (country indicated in the signings) is: TABLE 2: PAYOFF MATRIX 65Let the fact that the cumulative strategy of maximizing the well-being of both countries B and C prescribes resistance to increased credit supply through restrictive monetary policy. This strategy avoids a crisis in the second period, provided, however, that the strategy is shared by both countries. If it were an equilibrium strategy, 1.[1]2 are represented for both countries (B and C). 66 In order for a globally optimal strategy to be an equilibrium solution, we need to [1]2 qgt; [1]2. Previous inequality does not occur when a country benefits significantly short-term by keeping interest rates near market levels and receiving large amounts of resources. When such inequality does not exist, we have a situation similar to that of a traditional prisoner: countries are unable to coordinate their strategies for total well-being, the maximum outcome of the game. Thus, a coordinated monetary policy will avoid these problems. A centralized solution could prevent the emergence of an external link related to contagion and the spread of the crisis, and could lead to the maximum result of welfare. The payout assumptions and subsequent analysis we have conducted suggest that efficiency is pre-00: so the cumulative maximization of wealth requires avoiding a crisis, even by not taking advantage of low interest rates. 68 Of course, when, on the contrary, the use of opportunities from low credit prices brings benefits that exceed the costs of the subsequent crisis (i.e., [1]2 qgt; 1/[1]2), the strategy of maximizing well-being is that both countries can take into account and appropriate the costs of the crisis in the aftermath. In this scenario, the equilibrium is effective even without coordination between the monetary authorities. In accordance with this specific assumption, the results of the coordination will actually reproduce the results that arise in his absence. 69Thisth letter analyzed how the role of governments has changed in recent years, which is part of the complex dynamics caused by globalization, in part, especially in the last three years, the urgent need to respond to the financial crisis. The role of governments around the world during the financial crisis can best be described as a differentiation between developing and developed economies. 71 Government in developing countries is primarily focused on the development of its country, both by stimulating monetary policy exports and by managing the vast resources accumulated by the SVF through a persistent trade surplus. The trade surplus laid the groundwork for the onset of the crisis, while the SVF helped mitigate its perverse effects. 72Concorded economies have uncoordinated reacted to the significant changes that have taken place. This is partly due to the increasing complexity of strategic policy in the context of increased real and financial interaction between different geographical areas. 73 What's more, the crisis is back the traditional dilemma of economic policy. Innovation in the financial sector contributed to global growth; even low interest rates in the run-up to the crisis provided Western investors with significant opportunities for cheap lending. The trade-off between growth and financial stability must therefore be reviewed. 74 The crisis has also shown that, in the current international decision, it is impossible to make coordinated decisions, as we have referred to in section 6. Some super-national institutions will be needed to address this problem. 75Recited events also require a new role for the government to respond to the activities carried out by SWFs. The scale and complexity of such funds, combined with their specific characteristics as government agencies, have indeed raised a number of concerns in Western countries. The main one was to fear that these funds would be able to generate coordinated and therefore significant changes in financial markets. These movements will be troubling because these funds are potentially motivated by political strategies that have little or nothing to do with the market. In particular, the idea that these funds could use economic leverage over Western countries to use political leverage is widespread. 76 While the experience gained so far seems to support the hypothesis that these concerns were poorly justified, and while the benefits that SWFs have provided to financial markets are now well recognized, it is recommended that governments install tools to prevent (and, if necessary, resist) undesirable actions by SWFs. : The Government's participation in these funds may suggest diplomatic channels (Siniscalco, 2008), thereby changing the nature of the response to abuses committed by such institutions. 78 Ultimately, globalization in the real economy, along with the financial interactions reflecting it, requires careful and, more importantly, internationally coordinated regulatory policies: the recent crisis has indeed shown that global imbalances can trigger a crisis that transcends the countries that caused it. This problem of free ridership can only be solved by properly coordinating policy responses at the international level. This statement applies to the policy of sovereign wealth funds as well. If some restrictions on their actions are to be imposed (in the form of tax adjustments or as an alternative to codes of conduct), they should be coordinated at the international level; otherwise, countries with stricter standards will be less able to take advantage of funding opportunities which will reduce access to capital for companies operating in their territory (and possibly to move mobile enterprises), enterprises), reduce the likelihood of a crisis (which can easily occur in countries with fewer rules and spreads). Remerciements Authors would like to thank Piercarlo Friguero, Giorgio Galeazzi, Davide Vannoni, judges and participants of the 2009 Stati e Mercati conference in Ferrara for valuable suggestions and comments. 1 Under the neoclassical model, flows should converge towards developing countries, where yields tend to be higher due to better development prospects. Instead, empirical evidence suggests that, in the current economic climate, flows tend to come from developing countries and reach developed countries. This phenomenon (see, for example, Bini Smaghi, 2007) may be due to the inadequacy of financial markets in developing countries, including China, which increase the cost of lending to companies in the region. 2 Before securitization (or alternative forms of credit risk transfer), the bank's decision on whether to grant a loan should jointly take into account the issue of the loan, its servicing among the bank's assets and its financing using internal resources (deposits, shares or securities). The opportunities generated by securitization allow financial institutions to disconnect the decision to provide a loan for its maintenance within the perimeter of the bank. Banks can indeed sell loans to specific financial institutions called special purpose vehicles (spvs). SVR finances the purchase of loans by issuing securities whose repayment is financed by credit services. Securities are structured according to different risk classes. In a relatively opaque market, with appropriate information asymmetry, as well as securitized debts, banks must provide adequate signals to the SPV in order to convince them of both the inherent high quality of debtors (adverse selection) and the bank's efforts to adequately control them (moral risk). Banks signaling activity are twofold: ex ante, they support riskier in the perimeter of banks; Ex post, they buy a portion of the securities issued by SPVs. 4 Limited amount of information about SWFs does not allow you to accurately calculate. Also, determining which investors should be included in SWFs is a moot point. Banca d'Italia (2009), Bollettino Economico, 57, luglio. Bec R., Fidor M. (2008), Influence of Sovereign Wealth Funds on Global Financial Markets, in Bank of International Settlements Random Document, 91. Beanie Smagi L. (2007), Global Imbalance and Monetary Policy, in the Journal of Policy Modeling, 29, 5, p. 711-727. Butt S., Shrivdasani A., Stendahed K., Wyman A. 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