

Answer on Question #43957 – Economics – Finance

How does the financial system contribute to economic prosperity in a market economy?

Solution:

Reliable financial system is the linchpin in the development and successful operation of a market economy and a prerequisite of growth and stability of the economy as a whole. This system is the basis for mobilizing and distributing savings of society and facilitate its daily operations. Consequently, although the structural transition from a mostly centrally planned and controlled economy to a functioning in accordance with market principles, includes many elements, the most important thing is to create a sound financial system. Once established a sound financial system can develop money and capital markets, especially primary and secondary markets of national government securities.

In modern conditions the financial system consists of four units: the state budget, municipal finance, finance of state enterprises and special government funds. Together, they constitute a kind of financial basis of socio-economic activities of the state. Central place in the financial system belongs to the state budget - the largest monetary fund that uses the government to finance its activities. The state budget finances the army, police, a significant portion of health, with its help the state affects the economic processes.