

Answer on Question #43962 – Economics – Finance

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

Solution

As follows from the principles of market economy, the producer and the consumer are largely independent of the effects of powers, the relationship of free market of goods and services connect them. Although the market economy to a certain extent is regulated by the state and employers must comply with state laws relating to the various parties of entrepreneurial activity such economy has much higher level of interest and initiative than in the centralized economy. Under current conditions the economies of most countries have national market regulators.

Market relations are regulated by the state, particularly through government contracts and social security, support for basic research and monetary system. Financial regulation is carried out within the tax system, the directions for the future development of society are defined in the formation and implementation of long-term state of federal and regional programs, including executable from the budget of the country, state. Export-import relations are regulated by the state through a system of tolls and tariffs on the import and export of goods. The state promotes the development of foreign economic relations and at the same time protects the interests of domestic producers. All these measures to maintain market relations are regulated by law, the legal system of the state. The complexity and diversity of economic relations in society determine the diversity of financial relations. Finance services production activities and operates in numerous non-production sectors. Each unit of social reproduction leaves its mark on the financial relationship. Therefore, finance, retaining its basic features of distribution categories, reflects some features of that kind of business in which it is used. On this basis, there are various types and varieties of financial relations that have been appropriately grouped, creating a financial system. Each link in the financial system has its own system of funds and their controls.