

Answer on Question #44056 – Economics - Microeconomics

Explain the role of a government in an economy

Solution

A government is supposed to guide and direct the pace of its country's economic activities. It is also supposed to ensure that growth is steady, employment is at high levels, and that there is price stability. Additionally, a government should adjust tax rates and spending, so that it is able to speed up or slow down the economic growth rate.

The government must focus on maintaining economic stability. Fiscal responsibility is an important part of that stability. Government debt can quickly become a burden on the economy and weaken its foundations. Sound macroeconomic policies enhance the credibility of the government and strengthen the political institutions. This credibility is vital for economic stability and Americans' long-term investment decisions that allow the U.S. economy to flourish. In order to restore economic stability, policymakers must focus on restoring the institutional role of governing. Government can provide a stable environment for economic growth when it can be dependent upon to maintain the stability of the currency, enforce and defend property rights, and provide oversight that assures private citizens that their transaction partners in the marketplace are held accountable. This will allow market participants to begin putting their resources back to work in the areas where they are most beneficial.