

econ 240

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## chapter 7

### business-government relations

- understanding why sometimes governments and business collaborate and other times work at length from each other
- defining public policy and the elements of the public process
- explaining the reasons for regulation
- knowing the major types of government regulation of business
- comparing the cost and benefits of regulation for business and society
- examining the conditions that affect the regulation of business in global context

### notes for intro

- the automakers need help so the government gave them a 256 billion dollar loan because they wanted workers to stay working they also owned some of the cars stock (one third of gm stocks)
- the greek government did was on spending spree
- the government asked banks for help selling bonds to them or something like that

### how business and government relate

#### intro

according to the book understating the government authority and its relationship with business is essential for manager in developing their strategies and achieving their organization goals

### business-government relations

- government can work and they will both come out better off

## Working in arms lengths

why do businesses sometimes welcome government regulation and involvement in the private sector and other times oppose it?

- companies often prefer to operate without government constraints which can be costly or restrict innovation
- they can also set a requirement that everyone must follow

The business - government relationship is one that requires managers to keep a careful eye trained towards significant forces that might alter this relationship or promote forces that may encourage positive business government relationship

## legitimacy issues

- economic sanctions: human rights violation or lack of legitimate government will cause other government to move from that country examples
  1. Kuwait
  2. Lebanon
  3. Libya
  4. Qatar
  5. Saudi Arabia
  6. Syria
  7. United Arab Emirates
  8. Republic of Yemen

government's public policy roles

## intro

*public policy* : is the plan of action undertaken by government officials to achieve some broad purpose affecting a substantial segment of a nation's citizens

in other words to do and what not to do

- the government does not act unless a huge part of the public is affected, the government is working on people benefit
- the basic power to make public policy comes from a nation's political system

## Elements of public policy

the actions of government in any nation can be understood in terms of several basic elements of public policy these are inputs goals tools and effects  
*public policy inputs* : are external pressure that shape a government's policy decisions and strategies to address problems.

1. economic and foreign policy concerns
2. domestic political pressure from constituents and interest groups
3. technical information
4. media attention

these are the factors that play a role in shaping national political decisions

*public policy effects* are the outcomes arising from government regulation  
 there was argument that phones cost more to take take off than leave off  
 so it cost billion to leave them on. but 25 billion in benefit lost meaning  
 that it would cost 23 billion to take them off

## types of public policy

created by the government, that have to major types

1. economic
2. social

sometimes they are the different and sometimes they are similar

### *economic policies*

FISCAL POLICY : refers to patterns of government collecting and spending  
 funds that are intended to stimulate or support the economy .

MONETARY POLICY: refers to policies that affect the supply demand and  
 value of a nations currency

example of fiscal policy would be bailouts where they give loans or finances  
 to troubled companies to keep them running

monetary policy - lowering interest rate so more companies can gain confidence  
 and borrow

1. fiscal policy refers to patterns of government collecting and spending  
 funds that are intended to stimulate or support the economy
2. monetary policy refers to policies that affect the supply demand and  
 value of a nations currency
3. taxation policy raising or lowering taxes on business or individuals
4. industrial policy directing economic resources towards the development  
 of specific industries
5. trade policy encouraging or discouraging trade with other countries

### *social assistance policies*

just assistance for the well being of people

## Market failures

*market failures*: that is the market place fails to adjust prices for the true cost of a firm's behavior.

## Negative externalities

*Negative externalities*: or the spillover effect results when the manufacture or distribution of a product gives rise to unplanned or unintended cost

## Natural monopolies

*Natural monopolies*: ex: the electric company can set the prices to whatever they want so there would be government intervention

## ethical arguments

*ethical arguments*: utilitarian ethical argument in support of safe working conditions

## type of regulations

*type of regulations*:

1. economic regulations : aim to modify the normal operation of the free market and the forces of supply and demand
2. antitrust a special kind of economic regulation
  - antitrust laws : one important kind of economic regulation occurs when government act to preserve competition in the market place thereby protecting consumers.
    - prohibits unfair, anticompetitive practices by business( other countries use the competition law)
  - predatory pricing the practice of the selling below cost to drive rivals out of business

if found guilty of the antitrust there will be fine depending on what it is. pay for the damages done to other companies

the government might impose some remedies

- *structural remedy*: may require a break up of monopolistic firm
- *conduct remedy*: when the the firm will change its conduct often over government supervision
- *intellectual property remedy*: it involves disclosures of information to competitors all these are part of the regulator arsenal

### social regulations:

*social regulations*: are aimed at such important social goals as protecting consumers and the environment and providing workers with safe and health working conditions

1. equal employment

2. employment opportunity
3. protection of pension benefits
4. health care for citizens

dodd frank act: the role of the dodd frank act in regulating a complex financial product called derivatives is explored in the discussion case at the end of this chapter

#### **the effect of regulation**

*the cost and benefits of regulation*

there is always a cost to regulation but we hope the benefits is greater than the cost

the test of *cost benefits analysis* helps the public understand what is at stake when new regulation is sought.

#### **continuous regulatory reform**

*deregulation* is the removal or scaling down of regulatory authority and regulatory activities of government.

*regulation*: is the increase or expansion of government regulation especially in areas where the regulatory activities had previously been reduced.