Name

Name of Professor

Class

Date

Crises, Defaults, and Controls

**First Reading: Why Do Developing Countries Tax So Little?**

Summary of Reading

Tax is recognized as the one important aspect of the broader concept of public finance. It is unfortunate that there is less attention on the power of taxation. Exploration of some international statistics is vital to determine the true position of tax imposition in low-income countries. It is revealed that tax collection is only 10 to 20 percent part of the gross domestic product of underdeveloped countries. The entire prospect of tax collection can only understand through the exploration of all the forces which play their role in the process of development and economic growth.

Comparisons of different economic patterns for various nations during a specific period of time helps to determine the tendency of governments to collect taxation revenues. The main theme of this research work based on the hypothesis that there are some country-specific factors which play a substantial role in the entire scenario of low tax for the low-income nations. The framework for this study is developed considering the share of taxation in GDP as dependent variables. There are many different features that play a critical role in the case of poor countries concerning the main perspective of tax collection. A benchmark model is established to identify the main causes of the prevailing difference between tax collection domains of developed and less developed countries. Economic structure, cultures, and the intervention of governments are two major aspects relevant to the empirical pattern of taxation for less developed countries[[1]](#footnote-1). State-building is important to successfully implement the taxation system in the country with the proper intervention of the government.

Personal Opinion on Reading

Detailed exploration of all the factors related to the development system of the low-income countries helps to closely assess the actual scenario of low tax collection for less developed regions. It is vital to determine the issue of low taxation concerning different factors. There are many significant reasons which hinder the approach of poor countries when it comes to the idea of raising tax revenues. Consideration of different broad facts about taxation at the national level helps to make proper inference about the reasons for low tax collection in low-income countries.

Questions Related to Reading

1. How political role in less developed countries can be helpful to ensure proper application of the tax system?
2. How the active involvement of economic institutions, political institutions, and cultural standards can be helpful to increase tax share in GDP growth.

**Second Reading: Corporate Finance and Monetary Policy**

Summary of Reading

The entire phenomenon of corporate finance can never understand without the proper consideration of the monetary policy of the country. The main focus of this exploratory study work is to assess different forms of external and internal finance that develop grounds for entrepreneurs to invest. The main paradigm of corporate finance linked to different advancements appears in the form of money, credit, and asset of the markets. The participation of monetary policy is crucial because it influences private business entities in the form of liquidity, trade and bank credit, loans, the particular size of the loan, and the overall scenario of investment. The role of monetary policy is determined for the particular business environment where business producers have different incentives of investment that eventually increase the growth of the market[[2]](#footnote-2). The framework of this study comprises on the assumption that there is no option for entrepreneurs to adopt the option of direct trade from suppliers. The role of banks is also critical in the considered framework for this study. It is established that banks have two exclusive aspects relevant to the authority of observing entrepreneurs and administer repayment to some level. The credit market is developed as over-the-counter (OTC) market relating to the basic factor of bargaining.

The monetary domain is used in this research work as the New Monetarist framework to discuss the idea of investment opportunities for entrepreneurs concerning monetary policy. The factor of intermediated credit is reflected as the main factor that is applied by the banks to offer liabilities as the means of payment. Development of some general properties related to value functions is also an important aspect of concern to evaluate the idea of investment by entrepreneurs in the scenario of purchasing capital goods. Exploration of the developed model helps to identify all the relevant limitations of the market.

Personal Opinion on Reading

A comprehensive explanation of the entire idea of monetary policy and the investment domain adopted by entrepreneurs helps to figure out the actual situation. It is the exploration of the developed model in the existing market scenario relevant to the main idea of identifying an existing association between corporate financing and monetary policy.

Questions Related to Reading

1. What are the implications of the monetary model for cross-sectional distribution?
2. How the role of banks determine the functioning of corporate investment?

**Third Reading: Central Bank Independence and Fiscal Policy: Can the Central Bank Restrain Deficit Spending?**

Summary of the Reading

Due to the long-run connection between inflation and deficits, balanced budgets are preferred by the independent central banks. The monitory policy had been removed in the past from the hands of the government due to reformed central bank laws. It is notable to mention that, new reforms help independent central banks to ensure low inflation or price stability by changing interest rates or targeting the money supply[[3]](#footnote-3). Governments rely on fiscal spending after losing an important mean to influence the economy. Now, independent banks use public statement in order to respond to the budget plan of the government to avoid deficits and limit spending to available taxes. It is analyzed that fiscal policy is significantly influenced by the legal central bank independence which is accustomed by domestic political organizations. There is an increased chance that fiscal spending by the government is being altered by central banks due to the strong rule of law of democracies. Lower fiscal deficits are observed in countries having democracies with independent central banks. During the tenure of left-wing executives and non-election years, the central bank is efficient to reduce fiscal deficits. It is evident that many institutions are shown to limit deficit spending including agreements among key veto players, entrustment to the executive of schema power, and balanced budget laws. It is noteworthy to mention that results show that the coefficient of the CBI index is statistically inconsequential but positive. The results also show an enhancement in the fiscal deficits of about 0.7 percent due to the marginal effect.

Personal Opinion on Reading

This article proves that legal central bank independence reduces the fiscal deficits in countries with a free press, and high constraints on the executive. These articles provide viable information about the effectiveness of central bank independence to control fiscal deficits. Central banks are deteriorating the government spending in countries having laws and with a free press. The budget plan of government is strongly influenced through central bank independence as they can use public statement with the assist of domestic political organization. This article evaluates the integrity of central bank independence to impact the fiscal deficit.

Questions Related to Reading

1. What are the actual forms of CBI restraints deficit in the overall domain of democracies relevant to the idea of financial features?
2. Why CBI never impact in the form of counter-cyclical fashion?

Work Cited

Besley, Timothy, and Torsten Persson. “Why do developing countries tax so little?” *Journal of Economic Perspectives* 28.4 (2014): 99–120.

Bodea, Cristina, and Masaaki Higashijima. “Central bank independence and fiscal policy: can the central bank restrain deficit spending?” *British Journal of Political Science* 47.1 (2017): 47–70.

Rocheteau, Guillaume, Randall Wright, and Cathy Zhang. “Corporate finance and monetary policy.” *American Economic Review* 108.4–5 (2018): 1147–86.

1. Timothy Besley and Torsten Persson, “Why do developing countries tax so little?” *Journal of Economic Perspectives*. 28.4 (2014): 99–120. [↑](#footnote-ref-1)
2. Guillaume Rocheteau, Randall Wright, and Cathy Zhang, “Corporate finance and monetary policy” *American Economic Review*. 108.4–5 (2018): 1147–86. [↑](#footnote-ref-2)
3. Cristina Bodea and Masaaki Higashijima, “Central bank independence and fiscal policy: can the central bank restrain deficit spending?” *British Journal of Political Science*. 47.1 (2017): 47–70. [↑](#footnote-ref-3)