

# Erin balderson research paper examples

[Finance](#), [Investment](#)



\n[[toc title="Table of Contents"](#)]\n

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1. [Excessive government spending](#) \n \t
2. [Effects of excessive government spending](#) \n \t
3. [Labour force](#) \n \t
4. [Productivity](#) \n \t
5. [Capital Accumulation](#) \n \t
6. [Discrepancy between given country's money demand and supply](#) \n \t
7. [Printing excess paper money](#) \n \t
8. [References](#) \n

\n[/toc]\n \n

The study aims to establish the factors behind excessive government spending as well as the causes of hyperinflation. For ease of understanding of these phenomena, the presentation begins with the definition of the two terms: excessive government spending and hyperinflation. An illustration of excessive government spending and its effects is then discussed as the main body of this presentation. Also, its effect of economic development is analyzed. The presentation as well undertakes to establish the causes of hyperinflation. This is also highlighted in the body of the presentation.

## **Excessive government spending**

Government spending covers all of a country's investment and consumption. This however does not include transfer payment of the country. In essence, the spending of any country is typically financed by taxes or its borrowings. Therefore, excessive government spending is a situation where a country's

rate of investing is far much less than the rate of spending. It is an instance that results when a country spends more than it invests, (Dem, Mihailovici & Gao, 2001). In fact, a situation where there is an existence of a gap between a country's spending and the manner in which it collects its taxes, the country is most likely to undergo excessive government spending, (Eyermann, 2011). This situation is mostly characterized by debt crisis. It is typically a country's uncontrolled spending. This is however caused by poor control of an annual amount of tax receipts.

### **Effects of excessive government spending**

Excessive government spending negatively affects the economic growth of a country. It presents a diminishing influence on an economy's economic growth. This is because it negatively affects production. Excessive government spending implies retarded investment on private investment and hence reduced economic productivity. As a result of an economic downfall that results from poor productivity, a country then diverts its resources far away from the jobs, investments as well as agricultural produce. This results in retarded economic growth, (Hazlitt, 1997).

Excessive government spending therefore results in poor economic growth. It results in a decrease in the production of quality and quantity of goods. The government is most likely to influence negatively the long run growth in the output of its products via excessive spending. Also, uncontrolled increase in a country's expenditure which is as a result of excessive government spending slows down the rate of an economic development, (Dem, Mihailovici & Gao, 2001). Quite often, workers do provide their labour only on condition that the benefits derived from the work is far much better than

those presented by leisure. Therefore, there is no labour provision in a situation where the reverse is anticipated by workers as a result of excessive government spending. This affects production in the long run and hence poor economic growth. A country's economy hardly grows in an absence of private consumption and investment.

Economic growth is a resultant of a labour force which is characterized with-- and has an incentive to offer their service and produce as well as by the entrepreneurs who have the will to carry out investment in capital stock. However, a government's excessive spending negatively influences the long run rate of economic growth of an economy which is free in nature. In essence, excessive government spending lowers the level of labour force, increases unemployment level and results in diminishing productivity. This is explained as follow.

## **Labour force**

Excessive government spending limits the level of participation of labour force by resulting in disincentives to service provision. A situation where the government funds its spending or expenditures through payroll taxes, the labour force definitely get lower pay even though employers are forced to pay more. Higher rate of marginal tax is a burden to the labour force.

Besides, a situation where expenditure is far much greater than investments, the labor markets become so rigid that it hinders even the workers' flow from declining industries to those that are expanding or newly established. This basically hampers economic growth.

## **Productivity**

Excessive government spending diminishes the growth rate of productivity simply by hindering workers' innovativeness and the accumulation of capital. Also, it reduces productivity due to the fact that all the resources shall have been withdrawn far away from the private sector and rechanneled to the public sector which is quite often very unproductive. These thus reduce productivity. As well, excessive government spending negatively influences productivity by demolishing the private savings (Hazlitt, 1997). It is worth recognizing that private savings are very vital in the improvement of level of knowhow as well as to invest in new equipments and plants.

## **Capital Accumulation**

Capital accumulation, a major factor behind economic growth is negatively affected by excessive government spending. In fact, through excessive government spending, the interest rates are increased and this essentially hampers or reduces the level of private investment. High interest rates make investors shy off and thus imbalance in tax collection, (Hazlitt, 1997). In addition, excessive government spending leads to the creation of uncertainty. This in the long run reduces the level of return on investments. Plant and equipment growth or capital investment quite often is influenced negatively by excessive government spending.

Excessive government spending thus implies that private investment is curtailed and expenditure is increased. In the long run, however, excessive government spending totally hampers consumption and investment. It is however authentic that a country's economy can hardly grow in an absence of investment and consumption, (Dem, Mihailovici & Gao, 2001).

Hyperinflation is an inflation that is extreme in nature. The increase in money supply is often triggered by a government's pay for extremely large expenditures without a substantial money reserve, (Economy Watch, 2010). Basically, its surfacing is based on some factors.

### **Discrepancy between given country's money demand and supply**

In essence, these disparities results in situations where confidence in a given currency is lost. As was put forward by the Neo-liberalism, it comes into existence due to misplaced confidence in a country's financial base, (Economy Watch, 2010). These may be caused by excessive supply of paper money. The excess paper money in supply is categorically ordered by fiscal and monetary authorities to be printed to help foot extreme country's expenditures, (Hazlitt, 1997).

### **Printing excess paper money**

Hyperinflation results from a country's spending far more than its ability to tax, together with unavoidable lack of confidence in its currency. Besides, it is caused by the existence of large of extreme government's debt which may be well over 100% of its gross domestic product, (Economy Watch, 2010). In conclusion, core reasons for existence of hyperinflation stems from excessive borrowing of money by financial authorities to help pay for all the expenditures. Besides, as asserted by Neo-liberalism, it is caused by misplaced confidence in a country's financial base.

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