Good example of research paper on how businesses are affected by government polic...

Business, Marketing

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Introduction

It is the role of the government to establish regulations guiding business principles and strategic management. When the government imposes these regulations businesses adapt by changing their operations and processes. Time and again the government keeps changing its frameworks forcing businesses to adjust on their operations. The effects are determined by the levels of profitability and competitiveness of businesses. Business owners are obliged to adhere to government rules and regulations by implementing polices aimed at achieving the government objective.

When the government raises its expenditure, for example, it injects income into the public. This creates investment opportunities or business expansion that further adds on profit. This may imply business growth and

development, increased employment rates, increase in consumer disposable income, and other trickle down effects (Kozami, 2005). Contrary a cut down in government expenditure leads to reduced investments, saving, and consumption. Among the areas significantly affected by government policies are discussed below:

Taxation policies.

Taxes form a crucial component of government revenue. The government can adjust taxes upwards or downwards depending on the need or policy requirement. For example, using the fiscal policy, the government may raise taxes to fund its budget or may regulate the taxes downwards to enable increased public spending.

In a globalized economy the structure of en economy's tax code is a crucial factor for business growth and investment (Truitt, 2004). An increase in tax rates by the government implies a rise in price of raw materials, increased costs of production, reduced output levels, and an overall increase in prices of goods and services produced. An increase in tax rates implies that businesses have to invest using higher levels of capital than when tax rates are reduced. To cater for the increase in expenditure businesses increase the prices of their products.

In a demand elastic market an increase in prices imply that consumers may shift to other producers or sellers or to other substitutable products. This may not have a significant effect on a demand inelastic market as the increase in price has minimal effect on the quantity demanded. In a perfect competitive market, which is demand elastic, the business loses its

competitive power over businesses that have not been affected by tax increment (Frans, 1994). Take an instance of a tea and coffee manufacturing industry. An increase in tax rate in tea manufacturing sector may imply an increase in the price of tea. Consumers will shift to coffee that has not been affected by the change in tax. This makes the tea manufacturer loose on its competitive power over coffee.

A decrease in tax rates causes a counter effect where the overall prices of goods and services decrease as a result of reduced costs of raw materials, and costs of production. This increases on the market competitiveness as businesses can afford to adjust their price downwards without affecting their profits. Other business taxes such as VAT, Corporate taxes, and environmental taxes, amongst others have the same effect on business productivity and competitiveness as they have the same effect on costs.

Interest rates.

The levels of interest rates are determined by the monetary policy committee that determines the regulatory policy to be implemented to monitor the money circulating in an economy (Kozami, 2005). During inflation the committee advocates for an increase in interest rates to regulate on the amounts of money circulating. In periods of recession a reduction in interest rates may be implemented to increase on spending. This affects both consumption and investments.

The government adjusts the interest rates through the central bank that determines the rates to be charged by other commercial banks. Business operations affected by changes in interest rates include sales, purchases,

receivables, and marketing (Truitt, 2004). A reduction in interest rates by the government triggers the same effect to commercial banks. This encourages businesses to borrow funds from these financial institutions that are used for expansion programs. Relatively, output and productivity increases leading to increase in sales, purchases, and receivables. The businesses can also cut their prices downwards encouraging increased consumption, sales, and marketability.

Increasing interest rates is a monetary policy implemented by the government in attempt to reduce money in circulation or inflation. Increased interest rates lead to increased expenditure on borrowing. This reduces the levels of business growth and investment. The levels of production may be affected as small businesses, for example, may not have sufficient capital to finance their strategies. The effect is on increased prices, decreased output, and in the long run high employee retention rates as a result of reduced wages and salaries (Frans, 1994). This negatively affects a businesses' market share, and its competitive power reduces.

Subsidies.

Subsidies are monetary services provided by the government to manufacturers of a given product. They act as rewards to producers and consumers of a product, inducing them to either increase their production or consumption. a government subsidy affects the supply and demand curve of a manufacturer by shifting the curves either inside or towards the right.

A government's subsidy to improve on production shifts the supply curve of the manufacturers or businesses outwards while the demand curve remains

unaffected. Such subsidies may include reduction of prices of raw materials or provision of input or equipment of production (Kozami, 2005). The producers are encouraged to increase their products as they produce equal quantities at lesser costs than before the subsidies.

Giving a subsidy to a business increases its production. The effect is a reduction in price without incurring a loss. Businesses increase their sales capacity thereby increasing their profits and competitive advantage. However, a policy on subsidies may be effective for business competitiveness if it is given for a defined product. In a perfect competitive market, for example, the effect of the subsidy may not be felt as all sellers will reduce their prices relatively. In a case of a monopolistic firm the subsidy policy works effectively. A monopolist controls the market as the business does not have many competitors. to prevent exploitation to consumers from such a business, the government may impose a subsidy so that the products are sold at reduced prices.

Government on Exchange rates.

The government has the authority to control exchange rates in an economy. Exchange rates play a crucial role for businesses that import and export materials or their produce. Essentially an appreciation in the exchange rates makes the prices of exports rise, and reduces the levels of competitiveness on exporting forms (Truitt, 2004). A depreciation or devaluation of the rates makes exports cheap leading to increased competitiveness of a firm. The government has a role in regulating the exchange rates by applying measures such as increased grants and subsidies while reducing income and

corporate tax to local manufactures so that their competitiveness is increased.

However, the effect of this policy on business competitiveness and production depends on the elasticity of demand of the products in question (Frans, 1994). If for example, a firm in US sells goods that are rice inelastic, a fall in the exchange rate will have a minimum increase in demand. If exports are price sensitive as in the case of elastic demand there will be a significant increase in quantity demanded.

The percentage of the raw materials imported by the business also defines the effectiveness of the policy in boosting the competitive power. If the business imports products and sells them to the domestic market the chances of losing out on devaluation are extremely high. If the same firm imports only a small percentage of materials and sells in another economy, then it may benefit from a devaluation policy. The opposite applies in cases of appreciation.

The economic status of other trading economies is also a factor contributing to the effectiveness of this policy. In 2010, for example, the value of the pound depreciated as the global economy was in recession. This decreased the quantities of exports in the region despite the reduced prices.

Public-private partnerships (PPP's).

This is a contractual arrangement between a private sector entity like a private business, and a public agency that may be the state or federal government. Through such an agreement the assets and skills of each sector are merged and shared in delivery of services to the public. Additionally,

each entity shares in the rewards and risks incurred in delivery of service. Through PPP’s businesses add on their value through synergies, integration, and cross transfer of expertise, skills, and knowledge. The business in partnership increases o efficiency, cost effectiveness, and speed in delivery of products. The partnership allows for alleviation and elimination of constraints of the economy such as political interference that hinder production. Partnering with the government also shields the business form risks of operation such as political interference. It increases business chances of innovation, diversity and ready market for products. All these works to the benefit of the private entity as it increases its competitive power, and its market share.

Business privatization.

This is a government imitated strategy where the operations of a business are taken over by a private entity. This may involve a sale of government held assist or removal of regulations or restrictions preventing private businesses from participating in an industry (Frans, 1994). Proponents of this policy maintain that competition in the private sector fosters effective practices that yield better services and products, less corruption, and reduced prices than while these businesses operate under the government. Privatization increases the business efficiency, reduces chances of political interference, is subjected to shareholder’s pressure hence improved performance, and also increases allows businesses to enter unexploited industries thereby increasing their competitiveness.

Conclusion.

Government policies imposed on businesses are meant to regulate the macroeconomic status of an economy. The policies and laws are used to regulate business operations so that they are in line with government objectives. Such measures as tax , exchange rates, and interest rates regulation fall under the fiscal and monetary policy of the government in ensuring proper amounts of money circulate in the economy for purposes of regulating inflation and recession. The other measures are used in adding on business synergy. Overall these measures affect the competitive power and production capacity of businesses in either a positive or negative manner.

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