

## Impact Factor:

ISRA (India) = 1.344	SIS (USA) = 0.912	ICV (Poland) = 6.630
ISI (Dubai, UAE) = 0.829	PIHHI (Russia) = 0.207	PIF (India) = 1.940
GIF (Australia) = 0.564	ESJI (KZ) = 4.102	IBI (India) = 4.260
JIF = 1.500	SJIF (Morocco) = 2.031	

SOI: [1.1/TAS](#) DOI: [10.15863/TAS](#)

## International Scientific Journal Theoretical & Applied Science

p-ISSN: 2308-4944 (print) e-ISSN: 2409-0085 (online)

Year: 2018 Issue: 06 Volume: 62

Published: 30.06.2018 <http://T-Science.org>

**Sakina Abdurahim Hajiyeva**

PhD.,

Assistant professor of Azerbaijan  
Tourizm and Managment University  
[nauka-xxi@mail.ru](mailto:nauka-xxi@mail.ru)

**SECTION 19. Management. Marketing. Public  
administration.**

## ANALYSIS OF INSTITUTIONAL REGULATION OF MACROECONOMIC DYNAMICS

**Abstract:** Directions of institutional regulation of macroeconomic dynamics in the modern period are examined in the article. For this purpose, the mechanisms of functioning and development of the processes of institutional transformations are considered. The rational use of resources requires state regulation of macroeconomic processes is noted. The factors of macroeconomic activity of the state in the transformed economic system are considered too. The specific conditions of state activity in Azerbaijan connected with the economy heterogeneity are analyzed. Recommendations and suggestions of solution of institutional regulation problems of macroeconomic dynamics with fiscal and monetary policy are given in the end of the article.

**Key words:** institutional regulation, financial stability, macroeconomic dynamics, fiscal and monetary policy, mechanisms of regulation, macrofinance priorities.

**Language:** English

**Citation:** Hajiyeva SA (2018) ANALYSIS OF INSTITUTIONAL REGULATION OF MACROECONOMIC DYNAMICS. ISJ Theoretical & Applied Science, 06 (62): 245-249.

**Soi:** <http://s-o-i.org/1.1/TAS-06-62-43> **Doi:**  <https://dx.doi.org/10.15863/TAS.2018.06.62.43>

### Introduction

In modern conditions, the available theoretical knowledge and methodological base for studying macroeconomic problems is insufficient to explain the mechanisms of functioning and development of the processes of institutional transformations. These processes in each national economic system have their own specific features, a distinctive algorithm and development scenarios that often contradict the basic principles of economic thought. In developed countries and countries that are at the stage of transformational processes, tendencies and patterns are observed that go beyond the framework of well-established concepts and theoretical schemes. That is what causes the emergence of an acute need for complementation and a significant expansion of the theoretical and methodological base of principles of formation and functioning of the macroeconomic system.

### Materials and Methods

Achieving sustainable economic growth, stability of the national economy, rational use of resources requires state regulation of macroeconomic processes. Each stage of development of the national economic system and the changes that occur in it cause an adequate change in the macroeconomic

theory as well. Since deep knowledge in the area of determining the conditions, factors and mechanisms of the impact of these measures on the national economy is required in order to develop and implement effective measures of state regulation [1;2;3]. Changes that occur in the economic system of states bring about new phenomena and concepts in the field of macroeconomic regulation. At this stage, a deep and comprehensive understanding of their place and essence is required for theoretical economic science. There is a need of a theoretical-methodological definition and justification of such categories as: "Macrofinance stability", "macroeconomic dynamics regulation", "institutional mechanism", etc. At the same time, modern economic theory in the countries with transition economies pays more attention to current economic processes and events, moreover, the theoretical base is rather vague, there is often a blind copying of western theories and models, the underdevelopment of organizational and legal mechanisms, and so on [4;5;6]. From this point of view, such basic problems as, models of the economy, the role of the state, the formation and development of institutions and fiscal and monetary regulation in conditions of spontaneity of macroeconomic processes become more relevant.



## Impact Factor:

<b>ISRA (India)</b> = 1.344	<b>SIS (USA)</b> = 0.912	<b>ICV (Poland)</b> = 6.630
<b>ISI (Dubai, UAE)</b> = 0.829	<b>PIHHI (Russia)</b> = 0.207	<b>PIF (India)</b> = 1.940
<b>GIF (Australia)</b> = 0.564	<b>ESJI (KZ)</b> = 4.102	<b>IBI (India)</b> = 4.260
<b>JIF</b> = 1.500	<b>SJIF (Morocco)</b> = 2.031	

At the moment, the sphere of regulation of economic processes does not possess any integral conceptual basis and a single scientifically grounded theoretical model for regulating macroeconomic dynamics, where the new features of the national institutional system would be taken into account. In our opinion, the main directions and areas of scientific research that need new theoretical and methodological approaches are the following: institutional regulation in unbalanced systems; mechanism of its impact on macroeconomic dynamics; increase in the effectiveness of macroeconomic regulation by improving the institutional environment. The generalization and systematization of economic theory in the specified areas will provide an opportunity to identify macrofinance priorities and a set of government regulation measures and increase the effectiveness of institutional regulation of the national economy at the macro and micro level. In this context, it is worth paying particular attention to the following problems and theoretical directions:

- the state macroeconomic policy in conditions of cyclical fluctuations;
- peculiarities of institutional regulation in conditions of instability;
- the influence of institutions on cyclical processes and financial stability;
- transformation of institutions in order to ensure macroeconomic stability.

We will consider the factors of macroeconomic activity of the state in the transformed economic system. The economic system at the present stage is characterized by the complexity of the institutional structure, increased dependence on internal interactions of subjects, openness and non-linearity of development. It should be noted that the defining property of the modern economic system at the present time is its heterogeneity, as a result of evolutionary development. Transformed economic systems are characterized by non-evolutionarily arising irregularity or heterogeneity. The heterogeneity of the economy becomes apparent in the elements of the system (subjects, objects, connections, coordination), micro and macro levels and the nature of the economic space and has an impact on the content of the functions and the structure of macroeconomic entities and the state. Transformed and dynamically developing economic system leads to the expanding of the state functions:

- a) objects heterogeneity -increases the importance of control over the supply of goods and the formation of channels for their provision;
- b) subjects heterogeneity - requires clarity of interrelationships and conjugation of rules, selection restrictions and activity conditions;
- c) space heterogeneity - increases the state's attention to maintaining the integrity of the economy;

d) microprocesses heterogeneity - puts forward the task of developing a mechanism that takes into account the non-representativeness of decisions of market interrelation participants.

The heterogeneity of the economy is of conceptual significance and is revealed, on the one hand, through the property of high adaptability of the economic system, and on the other, through strengthening the importance of regulation and the mechanism for regulating private interests, respectively through increasing the role of the state in the economy. The expansion and change in the functions of the state is reflected in its structure [7;8]. Transformed and dynamically developing national economic systems are characterized by the tendency to decentralize the organizational structure, which provides sufficient conditions for the state to fulfil its functions under conditions of instability and transformation. The authorities structure decentralization causes the need for functions distribution and internal interests coordination, and determines the multicomponent nature of the state's impact on the economy [9;10;11]. All this as a whole determines the peculiarity of macroeconomic activity, the content of which can be represented in the form of a theoretical model based on the use of structural-functional and spatial approaches. The scope of the proposed model covers the aggregate level of national economy and the level of its subsystems.

The model of macroeconomic activity of the state reflects:

- ✓ the impact of the government on the economy through participation in the formation of aggregate demand (Keynesian platform);
- ✓ the complex multilevel impact of the state on macroeconomic parameters through fiscal flows of central and subnational levels (flows generated by different levels create a vertical structure of macroeconomic impact, and impulses between subsystems of the economy, as a consequence of state activity, form amplifying or weakening cumulative horizontal "effects");
- ✓ the spatial heterogeneity of the concentration of fiscal impulses and regional non-equivalence of the final activity of the state;
- ✓ the differentiation of the government functions into basic, stabilizing and equalizing, affecting both the real sector and the internal organizational interactions of the state's organizational structures;
- ✓ specification of the mechanism for realizing the activity, depending on the equilibrium or non-equilibrium mode of operation;
- ✓ the multidimensionality of measuring the results of the state's activities, which can be assessed using simultaneous analysis of national and regional consequences.

## Impact Factor:

<b>ISRA (India)</b>	<b>= 1.344</b>	<b>SIS (USA)</b>	<b>= 0.912</b>	<b>ICV (Poland)</b>	<b>= 6.630</b>
<b>ISI (Dubai, UAE)</b>	<b>= 0.829</b>	<b>PIHHI (Russia)</b>	<b>= 0.207</b>	<b>PIF (India)</b>	<b>= 1.940</b>
<b>GIF (Australia)</b>	<b>= 0.564</b>	<b>ESJI (KZ)</b>	<b>= 4.102</b>	<b>IBI (India)</b>	<b>= 4.260</b>
<b>JIF</b>	<b>= 1.500</b>	<b>SJIF (Morocco)</b>	<b>= 2.031</b>		

The developed model of macroeconomic activity is based on the introduction of a new category - "pure fiscal flow", which is viewed as an institutionalized component of aggregate demand.

To justify the applied aspects of the theoretical model, the following points can be expressed:

- ✓ the ability to identify the type of each fiscal stream that receives subsystem elements (positive, neutral, negative);
- ✓ identifying the causes of different fiscal conditions in the regions;
- ✓ determination of the fiscal impact limiters specific to each subsystem;
- ✓ a quantitative assessment of the strength of fiscal growth or recession generators in the regions.

It is necessary to determine the specific conditions of state activity in Azerbaijan connected with the economy heterogeneity, which is manifested in the heterogeneity of resources and the inequivalence of the obligations of the state's structural units and the heterogeneity of the impact borders and the impact space.

It is necessary to identify the patterns of fiscal and monetary regulation of a dynamically developing and transformable economy. It should be noted that the macroeconomic activity of the state is a scientific abstraction, the form of manifestation in the budgetary sphere is fiscal regulation, and in the monetary sphere - the monetary one. For transformational economic systems and in conditions of decentralization of the organizational structure of the state, the system of goals, structure and mechanism of fiscal and monetary regulation becomes more complicated. Priority positions in the area of targets are taken by economic growth and the balance of financial indicators. The structure of regulation becomes more complicated. The effectiveness of fiscal and monetary regulation depends on the theoretical basis, in which the models of macroeconomic equilibrium and models of the non-equilibrium functioning of the economy can be used. In heterogeneous economy, macroeconomic equilibrium conditions become more complicated: it is necessary to take into account not only the aggregated parameters, but the conditions for achieving equilibria in local subsystems as well. This is due to the spatial distribution of state actions. The sources of imbalances in heterogeneous economy can be:

- ✓ intra-structural disorder;
- ✓ non-equilibrium situations in the dominant regions;
- ✓ imperfection of the institutional mechanism.

Fiscal and monetary regulation in non-equilibrium systems requires taking into account the processes of self-organization during the restoration of the economic order. The technology of fiscal and monetary regulation and their mechanisms are

specified depending on the functional regime of the economy. In non-equilibrium medium, both unified and selective impact is required. The latter assumes the detection of spheres of dosed fiscal and monetary impulse, taking into account cumulative factors and timely renewal of macroinstitutions. Fiscal regulation, combined with monetary influence, is able to provide "fine-tuning" of the heterogeneous economy. Both fiscal and monetary regulation should take into account the fact of spatial heterogeneity. To do this we should examine the model that reflects the fiscal and monetary conditions of equilibrium in the regions. The functionality of the model is that it should allow optimizing the fiscal and monetary efforts of the centre and sub-centres to achieve a long-term equilibrium of the economy. Applied value of the model is that it:

- ✓ identifies fiscal and monetary limitations specific to each region;
- ✓ allows to develop the measures of economic stabilization and direction of liquidation of existing discontinuities of regions from the potential level;
- ✓ allows to predict the consequences of fiscal and monetary actions.

The system approach allows analysing the factors, limitations, regularities and mechanism of the passage of fiscal impulse at the level of the national economy and in conditions of spatial concentration of state actions on a separate segment. The influence of institutions on the process and the results of fiscal regulation. From this point of view, we can formulate a new direction of institutional macroeconomics - the study of institutions of fiscal and monetary regulation. In this context, it can be claimed that:

- ✓ institutions are a form of macroeconomic processes and influence the implementation of these processes in the order of the reverse impact;
- ✓ the aggregate of institutions can be structured by the elements, instruments of fiscal and monetary impact and by the nature of the impact on the economy (institutional structure and institutional environment);
- ✓ the impact of institutions can be assessed by analysing institutional decisions that facilitate or prevent from achievement of targeted macroeconomic parameters;
- ✓ losses from institutional inefficiency are quantifiable in the form of deviations of actual parameters from potentially possible ones.

The content of the institutional mechanism through which fiscal regulation is implemented can be defined as consisting of the institutional structure of the state and the institutional environment that develops with respect to macroeconomic entities of the national economy as a whole and to the subjects of its separate segments (regions). The institutional environment is a system of specific institutions that

## Impact Factor:

ISRA (India) = 1.344	SIS (USA) = 0.912	ICV (Poland) = 6.630
ISI (Dubai, UAE) = 0.829	PIHHI (Russia) = 0.207	PIF (India) = 1.940
GIF (Australia) = 0.564	ESJI (KZ) = 4.102	IBI (India) = 4.260
JIF = 1.500	SJIF (Morocco) = 2.031	

form the basis for decision-making by business entities or their aggregated groups regarding production, distribution, exchange and consumption. The institutional structure of fiscal and monetary regulation is a set of basic legislative norms and organizations, procedures and rules, through which standardization of the choice and activity of the state is ensured. In the modern conditions of the Azerbaijan Republic, the institutional structure takes the form of a national model of budgetary and monetary regulation.

Comparative analysis of existing institutional models of budgetary and monetary regulation and determination of their macroeconomic consequences allows to assess the degree of their applicability under dynamically changing conditions, to identify areas of borrowing and individuality in improving institutions. Structuring of models of budgetary and monetary regulation will provide an opportunity to allocate support blocks, on the basis of which a national-specific variant of the national model of the institutional mechanism can be assembled. In our opinion, the main directions of the formation of the institutional mechanism are as follows:

- ✓ the choice of the model of incomes distribution and expenses differentiation,
- ✓ the use of the model of a combination of vertical and horizontal alignment,
- ✓ selection of the construction of both vertical and horizontal alignment.

The institutional mechanism of fiscal and monetary regulation has a general theoretical content that is revealed through types of institutions, their functions, the nature of the impact on the economy and the patterns of evolution. Macroeconomic aspects of the institutional mechanism of fiscal and monetary regulation are manifested through the influence of the organizational and legal forms of the state on the components of aggregate supply and demand, investment and money supply. The impact of fiscal and monetary institutions can be assessed by analysing their evolution in the context of:

- 1) institutional changes in procedures and laws;
- 2) transformations of the institutional structure;
- 3) macroeconomic consequences.

Specific impact of institutions is disclosed on the basis of the analysis of the current institutional mechanism of a particular country on

macroeconomic parameters. The influence of institutions is determined on the basis of the analysis of the results of budgetary, inter-budgetary and monetary regulation, taking into account institutional forms. The analysis covers the study of the impact of institutions on the change in the material structure of the flow of goods in the economy, their impact on reproduction processes and the ability of the economy to preserve integrity and stability. The systematization of institutional elements of budgetary, inter-budgetary and monetary regulation in the context of the comparative analysis of developed and transformational countries makes it possible to single out the general and the specific, trace the differences in macroeconomic consequences, and identify perspective directions for institutional improvement.

### Conclusion

The institutions of fiscal and monetary regulation of the Azerbaijan Republic are characterized as conservative and subject to the "chrood effect", the desire for Western isomorphism, and acting by "deviating effect relative to the initial macroeconomic goals." The institutions should be transformed in order to improve the effectiveness of fiscal actions and monetary measures. The studies show that instability accumulation is observed in the economy of Azerbaijan, which is associated with macro and institutional inefficiency in fiscal and monetary regulation, and this is manifested in the failure to observe objective macroeconomic restrictions in providing fiscal and monetary measures. Institutional structure and institutional environment are not adequate to the conditions of the heterogeneous economy and the tendency of decentralization of the state organizational structure. The institutes of budgetary and monetary regulation are not built into the general mechanism of fiscal and monetary measures. The spontaneous nature of the formation of institutions and their annual change create elements of disorder, contribute to the growth of chaotic processes and lead to the accumulation of critical signs and the persistence of a threat to financial stability in the economy. The solution of these problems is seen in the institutional design of fiscal institutions adequate to the heterogeneous national economy.

### References:

1. David Aikman, Andreas Lehnert, Nellie Liang, and Michele Modugno. (2016) Financial Vulnerabilities, Macroeconomic Dynamics, and Monetary Policy. 2016 - <https://www.federalreserve.gov>.
2. Matteo Cacciatores and Giuseppe Fioriz. (2015) The Macroeconomics of Market



## Impact Factor:

<b>ISRA</b> (India) = <b>1.344</b>	<b>SIS</b> (USA) = <b>0.912</b>	<b>ICV</b> (Poland) = <b>6.630</b>
<b>ISI</b> (Dubai, UAE) = <b>0.829</b>	<b>PIHHI</b> (Russia) = <b>0.207</b>	<b>PIF</b> (India) = <b>1.940</b>
<b>GIF</b> (Australia) = <b>0.564</b>	<b>ESJI</b> (KZ) = <b>4.102</b>	<b>IBI</b> (India) = <b>4.260</b>
<b>JIF</b> = <b>1.500</b>	<b>SJIF</b> (Morocco) = <b>2.031</b>	

- Regulation. *International Finance* 18:3, 2015: p. 343–360.
3. Daniel Cooper, Karen Dynan. (2018) Wealth Shocks and Macroeconomic Dynamics - <https://www.brookings.edu>.
  4. Johan den Hertog. (2018) REVIEW OF ECONOMIC THEORIES OF REGULATION. Tjalling C. Koopmans Research Institute. Discussion Paper Series nr: 10-18 - <https://www.uu.nl>.
  5. “Loayza, Norman V.; Oviedo, Ana Maria; Servén, Luis. (2004) Regulation and Macroeconomic Performance. Policy Research Working Paper; No. 3469. World Bank, Washington, DC. © World Bank. <https://openknowledge.worldbank.org/handle/10986/8953> License: CC BY 3.0 IGO.”
  6. (2018) Institutional regulation of the economy - <https://www.mpg.de>.
  7. [Brian Levy](#) Pablo T. Spiller. (2018) The Institutional Foundations of Regulatory Commitment: A Comparative Analysis of Telecommunications Regulation
  8. (1994) *The Journal of Law, Economics, and Organization*, Volume 10, Issue 2, 1 October 1994, Pages 201-246, <https://doi.org>.
  9. Roland Meeks. (2018) Capital regulation and macroeconomic activity: Implications for macroprudential policy. - <https://www.aeaweb.org>.
  10. Michael Woodford. (2010) Financial Intermediation and Macroeconomic Analysis. *Journal of Economic Perspectives*—Volume 24, n.4-2010—p.21–44.
  11. Bocola, Luigi, (2014) "Essays on Nonlinear Macroeconomic Dynamics". Publicly Accessible Penn Dissertations. 1212. <http://repository.upenn.edu>.

