Which Factors Affecting Optimal Economic Policy - Relation Between Economic Innovation Models and Financial Innovation

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Abstract--- The goal of This article focuses on analyzing which Factors Affecting Optimal Economic Policy - Relation between Economic Innovation Models and Financial Innovation in recent years. Method: include Qualitative research method: synthesis and inductive methods. Hsu et al (2014) pointed that show that industries that are more dependent on external finance and that are more high-tech intensive exhibit a disproportionally higher innovation level in countries with better developed equity markets. We also expand SWOT model by adding Value part analysis on it. Results: Authors stated threats including but not limit to: for a knowledge based economy, there are risks such as: loss of national cultural identity; and monetary and financial markets still has risks (exist), low credit growth.

Keywords--- SWOT, Factors, R&D, Economic Innovation, Technological Change.

I. Introduction

First of all, Keynesian economics is a system of macroeconomic theory based on John Maynard Keynes's (1883-1946) work The General Theory of Employment, Interest and Money (often referred to as The General Theory) and the principle of effective demand. The principle of effective demand asserts that the supply of goods is determined by demand. Therefore, during economic recessions, if the demand for public goods investment increases (increases public spending), production and employment will increase, thereby helping the economy to get out of the recession. The Great Depression (1929-1933) deeply influenced Keynes's thinking on economics. Previously, economists believed that every time there was an economic crisis, prices and wages would decrease; manufacturers would have the motivation to increase hiring and expand production, thereby the economy would recover. But Keynes looked at the Great Depression and saw that wages did not fall, employment did not rise, and production never recovered. From there, Keynes argued that markets were not as perfect as classical economists thought (source; wikipedia)

During the industrialization process, President Ho Chi Minh believed that "industry and agriculture are like two legs of the national economy. Indeed, for a country that started from a backward agricultural background, industry and agriculture are two basic material production sectors of society, closely related to each other, even though today we talk a lot about service development - a field of intangible material production.

(source: tulieuvankien.dangcngsan.vn)

Hence authors choose this topic of Which Factors Affecting Optimal Economic Policy - Relation Between Economic Innovation Models And Financial Innovation. And our paper is organized with introduction, previous studies, main findings, discussion and conclusion.

II. Previous Studies

We summarize in below table:

Authors	Year	Content, results
Hsu et al	2014	However, the development of credit markets appears to discourage innovation in industries with these characteristics.
Afonso et al	2019	show that, for the all period under analysis and controlling for institutional variables, inflation has a significant impact on monetary policy, and that governments raise their primary balances when facing increases in government debt. We also find a substitution relationship between both policies, whereby the central bank assumes an active role, especially in cases of higher levels of debt. Furthermore, the introduction of a common currency shared by 19 out of 28 EU countries had a structural impact on the response and the interaction between the two policies.
Dieye	2020	From a practical point of view, macroeconomic policies are usually classified into two broad categories: (i) structural policies that cover a wide range of measures designed to tackle obstacles to the fundamental drivers of growth, and to boost the economy's competitiveness and growth potential in the medium and long run. The structural measures usually have medium and long-term effects; (ii) demand management policies—fiscal and monetary measures—that target short-term macroeconomic stability. Macroeconomic stability refers to a state of the economy that displays internal and external sustainable financial positions, which in turn increase positive prospects for saving, foreign capital inflows, investment, and sustained economic growth.
Benhima et al	2020	The nature of the private sector's information changes the optimal conduct of monetary policy. When firms observe their individual demand and use it as a signal of real shocks, the optimal policy consists in maximising the information content of that signal. When real shocks are deflationary (like labour supply shocks), the optimal policy is countercyclical and magnifies price movements, which contrasts with the exogenous information case, where optimal monetary policy is procyclical and stabilises prices. When the central bank communicates its information to the public, this policy is still optimal if firms pay limited attention to central bank announcements.

(source: author synthesis)

III. Methodology

Aims of Paper Methods

Methodology

- **Qualitative research method:** We also uses comparison and synthesis method, combined with analytical and inductive methods, whereas we take advantage of historical (combined with) dialectical materialism method for our qualitative analysis.
- **Quantitative research methods:** Authors use scientific results as reference.

IV. Main Findings

Background

Challenges for Vietnam's economy in 2024. Firstly, the GDP growth rate in the first quarter of 2024, although improved, has not yet returned to the necessary trajectory, is not enough to create breakthroughs for sustainable development and cannot help our country escape the risk of falling into the middle-income trap. The growth poles have not really played their role in connecting and promoting regions, and at the same time, have also been affected by the general decline of the domestic and world economies. Domestic aggregate demand is weak, slow to recover in the context of inflationary pressure showing signs of increasing; consumer demand increased by 5.3% lower than expected, private investment demand increased by 4.2%; high airfares negatively impacted domestic tourism growth; The service trade deficit has not improved... Secondly, the production and business activities of enterprises still face many difficulties, the number of enterprises withdrawing from the market (86.4 thousand enterprises) is higher than the number of enterprises entering and re-entering the market (81.3 thousand enterprises). Low domestic and international demand, abnormal exchange rate fluctuations... are the main factors affecting the production and business activities of enterprises. Thirdly, the financial and monetary markets still have potential risks and challenges, the bad debt ratio tends to increase. Low credit growth in the context of reduced interest rates shows that the capital absorption capacity of enterprises is still limited. Fourthly, the implementation of the project to restructure the system of credit institutions associated with bad debt handling in the period of 2021 - 2025 and the plan to handle weak credit institutions, projects and works behind schedule, ineffective investment, and prolonged losses is still slow.

(source: baomoi.com)

Innovation Models

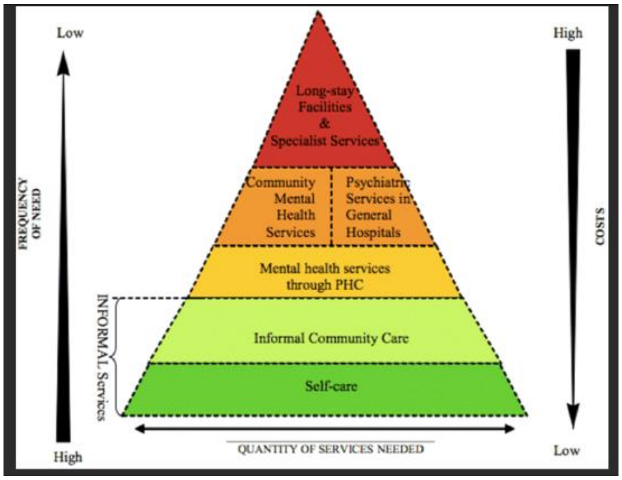

Figure 1: Optimal Mixed Services

(source: researchgate.net)

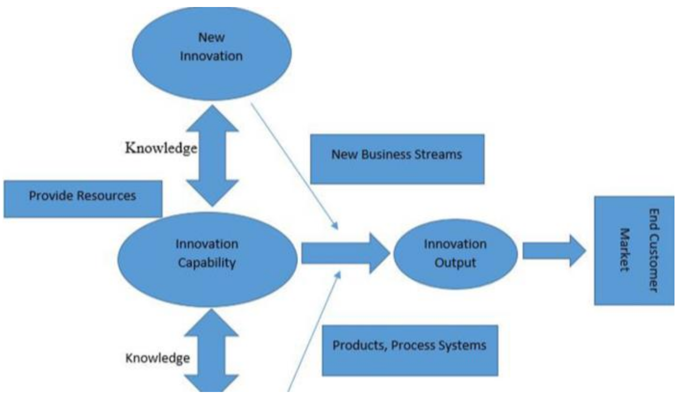

Figure 2: Innovation Model

(source: A.san, N , 2023)

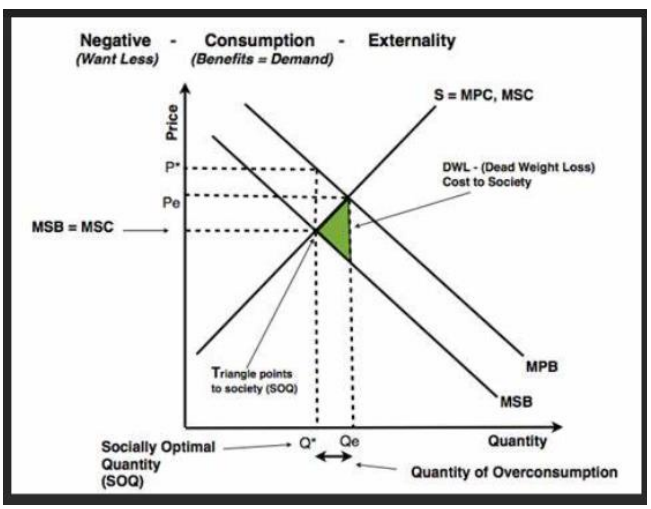

Figure 3: OPTIMAL Model

(source: researchgate.net)

Moreover we analyze:

SWOT Analysis

Table 1: SWOT Analysis and Values

Values	- levels of R&D will influence benefits/values of global commerce among countries
Strengths - the deep level of R&D will affect commercial activities (and of enterprises)	**Weaknesses** - restructuring credit institutions and bad debt (still need time) - somehow new technological change does not bring any success
Opportunities - technological innovation will bring or improve productivity, esp. In long term econ growth/development	**Threats** - for a knowledge based economy, there are risks such as: loss of national cultural identity - monetary and financial markets still has risks (exist), low credit growth

Source: author analysis

V. Conclusion

President Ho Chi Minh in the article "Thirty years of the Party's activities" published in the Journal "Issues of Peace and Socialism" put forward a general thesis: "Our greatest characteristic in the transitional period is that we moved straight to socialism from a backward agricultural country without having to go through the stage of capitalist development... Therefore, our most important task is to build the material and technical foundation of socialism".

(source: tulieuvankien.dangcongsan.vn)

Furthermore, Economic growth has a strong theoretical grounding and is easily quantified as an increase in aggregate output. In theorizing economic growth, David Ricardo (1819), and later Robert Solow (1956) and many others conceptualize an economy as a machine that produces economic output as a function of inputs such as labor, land, and equipment. Output can increase either when we add more inputs or use technology or innovation in order to enhance the efficiency with which we transform inputs into Output.

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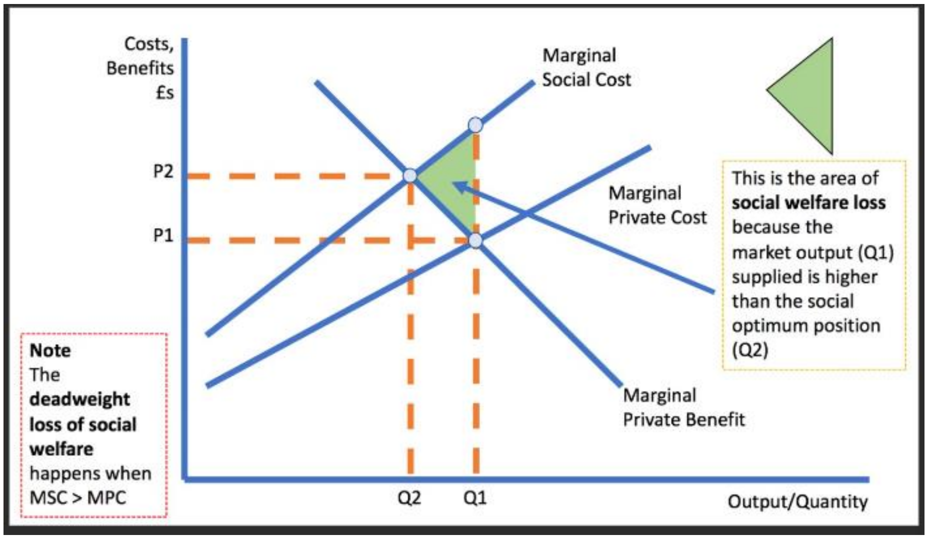
Appendix 1: Social Welfare (Optimal)

(Source: economicsstackexchange.com)



Appendix 2: Production (Optimal)

(Source: investopedia)