

A Study of Price Stabilization Policy in China: From the Viewpoint of Deregulation of Banking System

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This paper fits in the theme of Theory of Economic Policy .

Abstract

In this paper, I examine the effectiveness of deregulation policy of banking system on price stabilization in China. China has sustained a high level of GDP since the open door policy started in 1978. But at the same time, Chinese Government has experienced difficulty in dealing with violent price fluctuations several times. The reforms of banking system in China are performed by strict government regulations. The regulations discussed here are focused on monopoly of the state-owned commercial banks and the interest rate control. But under these regulations, it is hard to realize BIS control and the policy is difficult to influence the investment, consumption and deposit. Hence the price fluctuations can not be controlled effectively under the policy. The model is based on three-sector general equilibrium theory including a representative household, enterprise and bank, and the actual conditions of Chinese economy are depicted into the model. It is proved that the macro economic effects can be anticipated through two ways: one is a decrease in real interest rate and the other is an increase in deposit interest rate by deregulating monopoly of the state-owned commercial banks and interest rate control.

Keywords: Price stabilization policy, Price fluctuations, Regulation, Deregulation, Interest rate control, Monopoly of the state-owned commercial banks.