

A Novel Structural Equation Modeling Framework for Analyzing Fiscal Policy Impacts on Economic Stability

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Abstract. This article presents a novel structural equation modeling (SEM) framework designed to rigorously evaluate the impacts of fiscal policy on economic stability in emerging markets. By integrating advanced statistical techniques with comprehensive economic indicators, we address the growing need for precise analytical tools that reflect the complexities of fiscal dynamics. The framework allows for the simultaneous analysis of multiple interrelated factors influencing economic stability, offering insights that traditional linear models cannot achieve. Our empirical application illustrates the framework's effectiveness using data from several emerging economies, demonstrating significant correlations between fiscal measures and macroeconomic performance. The findings underscore the necessity of tailored fiscal strategies to enhance economic resilience. The innovative framework sets a new standard for fiscal policy analysis in contemporary economics, paving the way for more robust policy-making.

Keywords: fiscal policy, economic stability, structural equation modeling, emerging markets, macroeconomic performance, policy analysis, economic dynamics, statistical techniques, government intervention

Introduction

In the contemporary economic landscape, the interaction between fiscal policy and economic stability has emerged as a pivotal concern for policymakers and researchers alike. As nations grapple with the ramifications of global financial crises, inflationary pressures, and economic downturns, understanding the nuanced effects of fiscal interventions becomes increasingly crucial. The global financial instability witnessed in the past decade has underscored the inadequacies of traditional fiscal policy models, which often fail to capture the complexities of economic interactions and the multifaceted nature of fiscal

dynamics. Fiscal policy, encompassing government spending and tax policies, plays a vital role in shaping economic trajectories. Its relevance is magnified in the context of emerging markets, where institutional frameworks may vary significantly from developed economies, leading to different fiscal outcomes. As these economies seek to bolster growth and stability amidst volatile global conditions, there is an urgent need for innovative analytical methodologies that can more accurately reflect the implications of fiscal decisions. This paper introduces a novel structural equation modeling (SEM) framework tailored specifically to analyze the intricate relationships between fiscal policy measures and economic stability. By leveraging advanced statistical techniques, this framework allows for the simultaneous examination of multiple interrelated economic variables, thereby providing a more comprehensive understanding of the impacts of fiscal policy. We begin with a thorough literature review that highlights the limitations of existing models in capturing the complexities of fiscal dynamics within emerging markets. Following this, we delineate the methodological approach adopted in our study, emphasizing the unique aspects of the proposed SEM framework. Subsequently, we conduct an empirical analysis utilizing data from a selection of emerging economies, aiming to illustrate the practical applications and advantages of our framework. Finally, we discuss the implications of our findings for fiscal policy formulation, emphasizing the need for tailored strategies that align with the characteristics of each emerging economy.

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