

# ECONOMIC SYSTEMS

Ghazala Shaheen  
Guest Faculty  
Vanijya Mahavidyalaya

# WHAT IS ECONOMIC SYSTEM?

- An economic system is a mechanism which deals with the production, distribution & consumption of goods & services in a particular society and comprises of people, institutions and their relationships.
- It addresses problems like allocation or scarcity of resources

# TYPES OF ECONOMIC SYSTEMS

There are three types of economic systems-

1)CAPITALIST ECONOMY

2)SOCIALIST ECONOMY

3)MIXED ECONOMY

# CAPITALIST ECONOMY

- A capitalist economy is an economic system in which the production and distribution of commodities takes place through the mechanism of free markets . Hence it is also called as **MARKET ECONOMY OR FREE TRADE ECONOMY.**



# FEATURES OF A CAPITALIST ECONOMY

- **RIGHT TO PRIVATE PROPERTY.**
- **PROFIT MOTIVE**
- **FREEDOM OF CHOICE**
- **MARKET FORCES.**
- **MINIMAL ROLE OF GOVERNMENT**



# US ECONOMY – A CAPITALIST ECONOMY

- **THE US ECONOMY-Private businesses produce most goods and services. Almost two third of the nation's total output goes to individuals for personal use.**
- **Consumers role in US economy is very significant. (CONSUMER'S ECONOMY)**
- **Americans believe that an economy characterized by private ownership is likely to operate more efficiently than the one with government ownership.**
- **Federal government is responsible for the nation's defence system , research, road projects, education system , law and order mechanism.it also lends help to businesses and individuals (social security, medicaid etc.).**
- **Many private enterprises run educational institutions and universities.**

# ADVANTAGES OF CAPITALIST ECONOMY

- INCREASE IN PRODUCTIVITY
- INCREASE IN STANDARD OF LIVING
- FLEXIBLE SYSTEM
- NON INTERFERENCE OF STATE
- PROPER USE OF RESOURCES
- GROWTH OF ENTREPRENEURS
- TECHNOLOGICAL IMPROVEMENT

# DISADVANTAGES OF CAPITALIST ECONOMY

- INEQUALITIES.
- LEADS TO MONOPOLY.
- DEPRESSIONS.
- MECHANIZATION AND AUTOMATION.
- WELFARE IGNORED.
- EXPLOITATION OF LABOR.
- BASIC SOCIAL NEEDS IGNORED.



# UNDERSTANDING SOCIALIST ECONOMY

- Definition:-

1) All the means of production are owned and operated by state .

2) All the decisions regarding production are taken by central planning authority.

3) Is also called planned or command economy

# FEATURES OF SOCIALIST ECONOMY

- **Social welfare motive**
- **Limited right to private motive**
- **Central planning**

# ADVANTAGES OF SOCIALIST ECONOMY

- Economic stability
- Maximization of social welfare
- Absence of monopoly
- Basic needs are met
- No extreme inequality

## DISADVANTAGES: -

- **Bureaucratic expansion.**
- **No freedom.**
- **Absence of technology.**
- **Absence of competition.**



# MIXED ECONOMY

- A mixed economy is an economic system that incorporates aspects of more than one economic system. This usually means an economy that contains both private and state owned enterprises or that combine element of the capitalism and socialism
- Most countries fall in this category
- Examples: India , Poland etc.

# FEATURES OF MIXED ECONOMY

- Resources are owned both by the government as well as private individuals.
- Private and public sector exist side by side.
- All basic and heavy industries and other strategic sector of an economy e.g., banking, transport, energy etc. are controlled by the government. Agriculture, consumer goods and other industries trade are left for the private sector.

# ADVANTAGES OF MIXED ECONOMY

- Producers and consumer have sovereignty to choose what to produce and what to consume but production and consumption of harmful goods and services may be stopped by the government.
- The mixed economy is helpful in increasing national production in the country. Both public and private sector work hard to bring about more production

# ADVANTAGES OF MIXED ECONOMY

- A mixed economy may have less income inequality due to the role played by the government.
- Consumers are protected from consumption of harmful products.



# DISADVANTAGES OF MIXED ECONOMY

- Under mixed economy private enterprises have to face lot of difficulty because of various government interference.
- Since welfare of society is important in a mixed economy it leads to lower than optimum use of the resources because government mobilize the resources towards the production of those goods and services which are beneficial for the society as a whole rather than producing those goods and services which in economic terms are more beneficial for an economy.

**The foundations of the mixed economy were laid in India with the Industrial policy of 1948.**

- **Under this policy some industries like arms and ammunition, atomic energy, railway transport, etc. were made the monopoly of the state.**
- **Some more industries like iron and steel, aircraft and Shipbuilding, minerals etc., were sought to be progressively owned by the state .**
- **Government control over other industrial sectors was also extended and strengthened**

# COMPARING ECONOMIC SYSTEMS

CAPITALISM	SOCIALISM	MIXED ECONOMY
Private ownership of means of Production	State Ownership of means of Production	Private and State ownership of means of Production
Predominance of Private sector	Predominance of Public sector	co-existence of private and public sectors
Decisive role of market	Decisive role of planning	Decisive role of market and supportive role of planning
Profit induced Business	Production Guided by social benefit	Profit induced private business
Exploitation of Labor	Abolition of exploitation of labor	Production in State sector guided by social benefit
Restricted role of the government	Dominant role of the state	The intervention of the role of the State

# Economic Agents

- Economic agents are participants in the economy that engage in specialization, production, exchange, and consumption. There are two economic agents:
  1. Producers
  2. Consumers
- Government is also consider as economic agent.