

Types of Economies

Economic System and Types of Economies

Economic System

- An Economic System is the broad institutional framework, within which production and consumption of goods and services takes place
- Developed Economies have the free Market System that helps all people to enjoy high standards of living, as their per capita income and consumption of goods and services is high

Classification of Economies

- Developed : All enjoy very high standards of living (50 countries as in 2015 as per UNDP report)
- Developing : economy is one in which the per capita income and consumption is rising and living standard is increasing
- Under-developed : economy is one in which per capita income and per capita consumption is low and is stagnant. It is neither rising nor is likely to rise in foreseeable future. See table on page 54-55.

Closed and Open Economies

- An economy that has no trade relations with any other economy, is a Closed Economy
- An Open Economy has trade relations with the outside world. As in 2015, all countries have an Open Economy as international trade is the key factor for economic development, under Globalization.

Economies as per major activity

Production Economy has more land, labour and capital for production of commodities, greater part of which is consumed within the economy

A **Trading Economy** has more labour and capital invested in trading activities. Maximum portion of output is for exporting to other countries and for selling in market

Agricultural Economy : majority of the population is engaged in agricultural activities, and lives in rural areas. Primitive techniques of farming prevail and rural economy is backward / undeveloped

Industrial Economy: Maximum portion of population is engaged in Manufacture and Production, and lives in Urban areas. Modern technology is adopted in mechanized production in industries. Output is mostly for sale in market and for exports.

Capitalist Economy: is a free market economy in which the Government does not intervene at all. All economic decisions on what to produce? How to produce? And for whom to produce? Are decided by the market prices.

Economies classified as per extent of Government intervention.

Capitalist economy

- No intervention by Government
- Free market determines the movement of the economy
- Right to Property is a key right

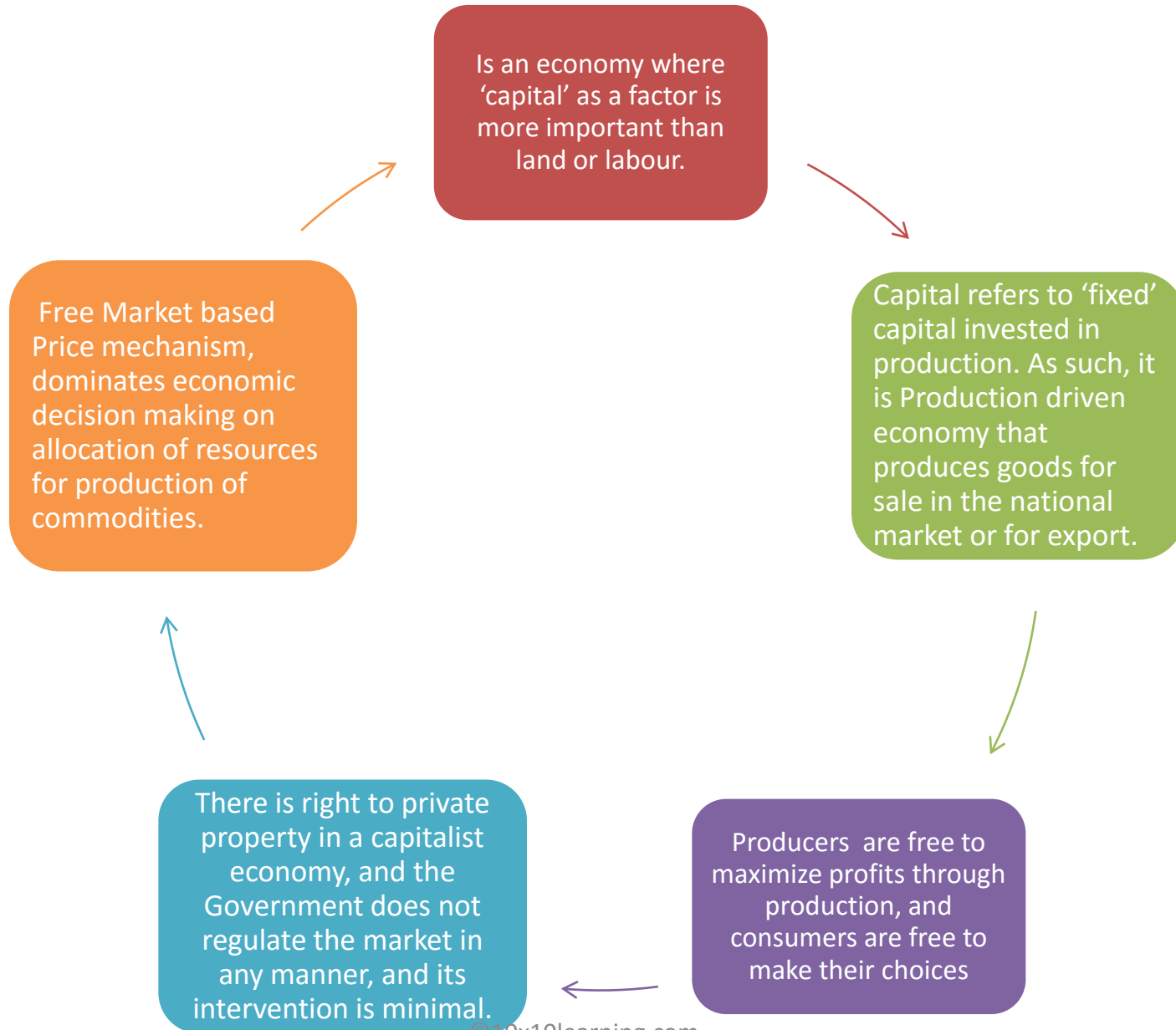
Socialist Economy

- All economic decisions are taken by the Government through Plans
- Government is seen to represent the labour factor, and therefore, controls the factors of land and capital
- There is no Right to Property

Mixed Economy

- Is a blend of capitalist and socialist economies
- A free market exists along with Right to Property.
- A system for economic planning by government also exists.
- Plans are for development of all strata of people, to provide for equity and emancipation from poverty

Characteristics of a Capitalist Economy



Merits of Capitalist Economy

More output through large scale production, at lower cost of inputs, that results in optimization of profits.

Goods produced on a large scale, at a lower cost, encourages international trade.

Minimum cost of making economic decisions. Competitive environment and absence of monopoly. This encourages risk taking and innovative entrepreneurship.

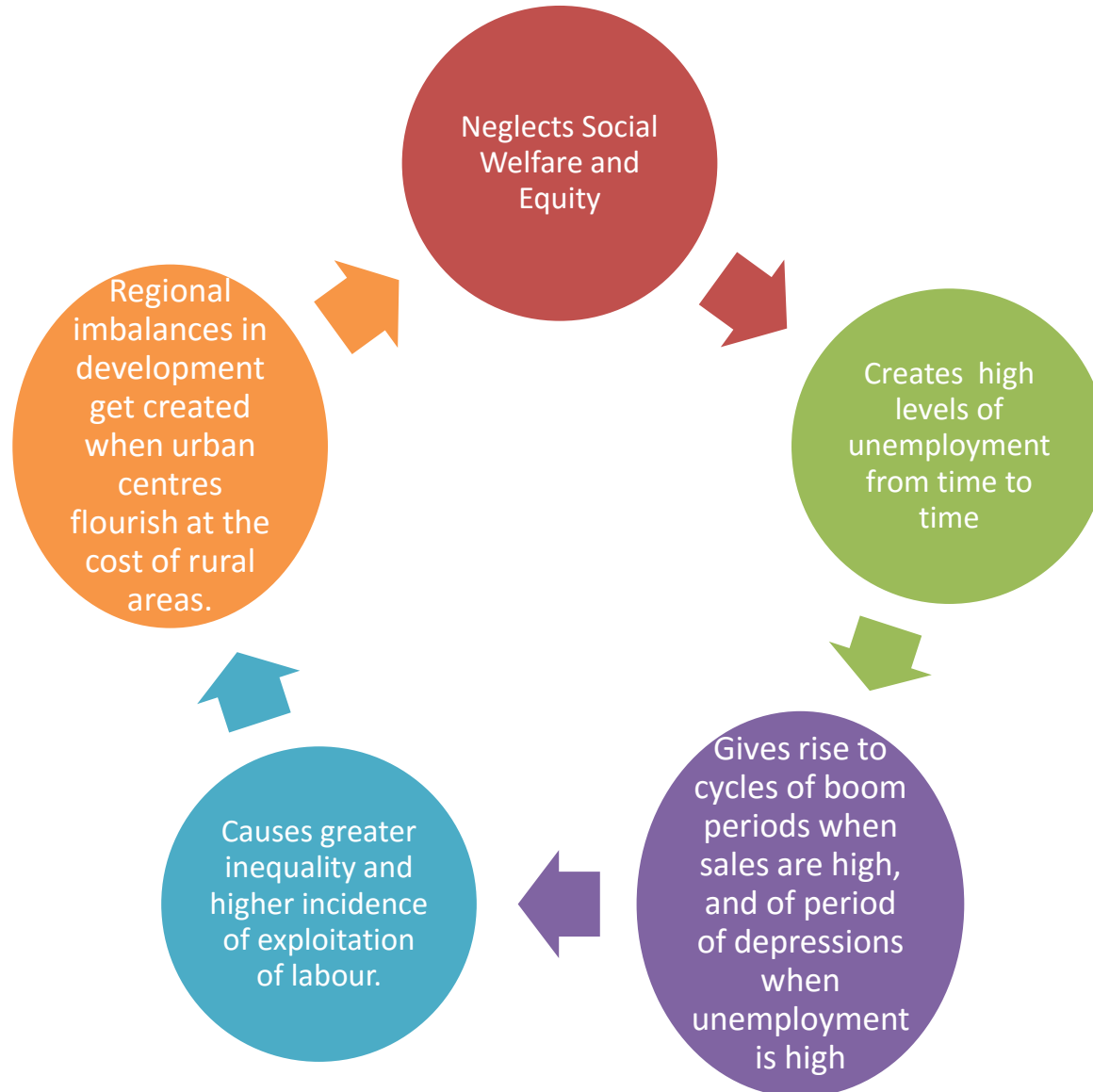
There is a continuous search for new products that can fetch higher profits.

Examples of Capitalist economies include USA, Canada, all countries in western Europe

Free market based price mechanism means that any disparity between supply and demand is automatically corrected through the price mechanism. Freedom to take economic decisions, for efficient utilisation of resources. Government intervention is minimal or non-existent.

Large scale production, based on modern technology, means more goods are available in the market, at lower prices. This means higher standard of living for all.

Demerits of Capitalist Economy



Characteristics /Merits/ Demerits of Socialist Economies

- Demerits: (a) State monopoly exists.
- (b) there is no economic choice or decision making by individuals, either as producers or as consumers. The basic liberty of deciding what to consume is also denied.
 - (c) Major loopholes exist in the planning system as implementation is not always as per planned objectives.
 - (d) Even farmers as producers, have no incentive to increase production or productivity because they do not own the land they cultivate.

(1) Government is seen to represent the labour factor, and therefore, controls the remaining two factors of land and capital.

There is no Right to Private Property and all property is owned by the State. There is an absence of the market mechanism. Therefore, the production system shows poor growth as it lacks personal commitment.

All economic decisions are taken by the Government through Plans

Merits of the Socialist Economic System:

(a) economic exploitation of labour for private profits does not exist

- (b) There is more equitable distribution of wealth and greater equity
- (c) Goods for mass consumption only are produced
- (d) There is a balanced development of all regions through Planning.
- (e) Greater sustained growth and efficient use of resources for benefit of society.

The labour class forms the Government in the State and all economic liberty are restricted. Development is as per the long term and short term Plan by the State. Providing for social equality and justice are the primary objectives .

Mixed Economies = blend the features of Capitalist and Socialist

