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Economic System

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Economic Systems

Economic systems are the means by which countries and governments distribute resources and trade goods and services. They are used to control the five factors of production, including: labour, capital, entrepreneurs, physical resources and information resources.

An **economic system** is a system of production, resource allocation, and distribution of goods and services within a society or a given geographic area. It includes the combination of the various institutions, agencies, entities, decision-making processes, and patterns of consumption that comprise the economic structure of a given community.



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The basic and general economic systems segmented by allocation are

- Market economy ("hands off" systems, such as laissez-faire capitalism)
- Mixed economy (a hybrid that blends some aspects of both market and planned economies)
- Planned economy ("hands on" systems, such as state socialism, also known as "command economy" when referring to the Soviet model)
- Traditional economy (a generic term for older economic systems)
- Participatory economics (a system where the production and distribution of goods is guided by public participation)
- Gift economy (where an exchange is made without any explicit agreement for immediate or future rewards)
- Barter economy (where goods and services are directly exchanged for other goods or services)
- Post-scarcity economy (a hypothetical form where resources aren't scarce, such as Marx's concept of a Communist society)



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Functions

What goods and services are to be produced? This is called '**allocation problem**'.

How are these goods and services produced? This is called '**production problem**'.

For whom are these goods and services produced? This is called '**distribution problem**'.

Are the country's scarce resources being fully utilized or are some of them lying idle? This is the problem of '**resource utilization**'.

Is the productive capacity of an economy growing or remaining static over time? This is known as the '**problem of economic growth**'.



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Capitalism

“Capitalism is a free-market form or capitalistic economy may be characterised as an automatic self-regulating system motivated by self-interest of individuals and regulated by competitions.” – Ferguson.



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Capitalistic

Capitalism is an **economic** system in which capital goods are owned by private individuals or businesses. The production of goods and services is based on supply and demand in the general market (market **economy**), rather than through central planning (**planned economy** or **command economy**).



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Capitalist economy has following main features

Private Property: In this economy private property is allowed. All means of production like machines, implements, mines and factories etc. come under private property.

Price Mechanism: Capitalist economy is guided by price mechanism. Here prices are determined by the interaction of demand and supply without the interference of any kind by the government or any other external forces.

Freedom of Enterprise: In this system every individual is independent to his means of production in any occupation that one likes.

Sovereignty of that consumer: Under this system, consumer plays the most vital role. The entire production pattern is based on the desires, wishes and the demand of the consumer.



Profit Motive: The maximisation of profit is the main motive of the producer. Profit guides the production in this type of economy.

No Government Interference: Under capitalistic system, government does not interfere in day-to-day economic activities. This means producers and consumers are free to take decisions.

Democratic: The capitalistic system is more democratic in comparison to other economic systems as there are more changes to chancel according to new environments of the economy.

Self-Interest: The inspiring force in this system is self-interest. It leads to hard work and to earn maximum income by satisfying their consumers.



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