

# ECONOMIC SYSTEM

<b>1.</b>	<b>Traditional / Subsistence Economic System</b>	
<b>Definition</b>	An economic system where goods are produced for own family use.	
<b><u>Features</u></b>		
<b>Resource Ownership</b>	Owned by the society as a whole.	
<b>Method of Exchange</b>	Barter System – Exchange of goods without the use of money.	
<b>What to Produce?</b>	They produce whatever they want to produce but as long as they are able to produce.	
<b>How to Produce?</b>	Use primitive methods. E.g. Hunting, gathering and subsistence farming.	
<b>For Whom to Produce?</b>	For own family use.	
<b>Advantages</b>	1. Simple form of organization.	The society has very simple needs.
	2. Has no industrial pollution.	There are no factories so the society is pollution free.
	3. No need for money.	Wealth is measured in terms of the number of plantation or pigs one has.
<b>Disadvantages</b>	1. Little choice for goods and services.	Due to primitive methods used, there is a less variety of goods to choose from for consumption.
	2. Low standard of living	There are no industries for production and medium of exchange is absent so there is very limited growth or development.
	3. Low level of specialisation and technology.	Farming practice may continue to use primitive method of farming.

## 2. Free Market / Capitalist/Laissez Faire Economic System

**Definition**      An economic system where resources are owned by business firms or private individuals.

### Features

<b>Resource Ownership</b>	Owned by the private individuals/business firms.
<b>Method of Exchange</b>	Money and different modes of payments are used (card system and electronic banking).
<b>Consumer Sovereignty</b>	Consumers alone have the power to decide what goods and services to be produced.
<b>Price Mechanism or Invisible Hands</b>	Prices of goods depend on the demand and supply.
<b>Laissez Faire</b>	Very little or no government interference at all.
<b>Profit Motive</b>	The main aim is to make a profit.
<b>What to Produce?</b>	Consumers decide what to be produced.
<b>How to Produce?</b>	Use of technology and modern methods of production. (Cost effective & Cost efficient)
<b>For Whom to Produce?</b>	For consumers who can afford to pay for the goods and services.

<b>Advantages</b>	1. Freedom of choice by consumers	The producers produce only what consumers demand.
	2. Efficient use of resources.	Competition among firms encourages them to use resources more efficiently and effectively.
	3. Producers are able to respond quickly to consumers demand.	This is done due to the latest technology available.

<b>Disadvantages</b>	1. Necessary services like police, hospitals are not available.	Business firms do not produce services that cannot enable them to make a profit.
	2. Social Costs such as pollution are ignored by the business firms.	Due to no government interference, there are not any laws implemented to make business firms pay for pollution costs.
	3. Consumers can be exploited.	This is done through unsafe, unhealthy and misleading trade practices.

### 3. Command/Planned Economic System

**Definition** An economic system where resources are owned and controlled by the government (Public Sector).

#### Features

**Resource Ownership** Owned and controlled by the Government.

**Method of Exchange** Money and modern methods of payments.

**Specialisation** Strong emphasis on producing capital goods. (**Goods that produce other goods and services**)

**What to Produce?** The government decides what to be produced.

**How to Produce?** Use of technology and modern methods of production.

**For Whom to Produce?** For the whole nation.

**Advantages**

1. Fair distribution of income. The Government distributes income evenly by charging progressive tax.
2. Economic Stability. (Low inflation, Employment Level) The Government is able to achieve this by using Fiscal and Monetary Policies.
3. Fair allocation of resources. Productions are directed towards peoples need and not for profit seeking.

Disadvantages

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| 1. There is excessive bureaucracy.           | This is when there is a lot of repetition and unnecessary delays in decision making.            |
| 2. There is no consumer sovereignty.         | There is no freedom of choice for consumers as the state dictates production.                   |
| 3. There is lack of incentives to work hard. | There is no incentive to generate new ideas or methods to bring about efficiency in production. |

4. Mixed Economic System

**Definition** An economic system where resources are owned and controlled by the private individuals (Private Sector) and the state (Public Sector).

Features

**Resource Ownership** Owned and controlled by private individuals and the Government.

**Method of Exchange** Money and modern methods of payments.

**Profit Motive** Main aim of business firms is to make a profit.

**Consumer Sovereignty** Freedom of choice of goods and services.

**Price Mechanism** Prices of goods and services depend on demand and supply.

**Price Regulation** The Government controls the prices for essential goods.

State enterprises to promote social welfare.

**What to Produce?** The Private Sector and Public Sector decide what to be produced.

**How to Produce?** Use of technology and modern methods of production.

<b>For Whom to Produce?</b>	Businesses produce for consumers who can afford and the Government produces for the whole nation.	
<b>Advantages</b>	<ol style="list-style-type: none"> <li>1. Healthy Competition.</li> <li>2. Achieves Equality of income</li> <li>3. Adopts democratic mode of planning.</li> </ol>	<p>There is healthy competition between private and public sectors which will benefit consumers.</p> <p>Income is fairly distributed with the use of Progressive Tax System by the Government.</p> <p>Consumers needs are taken into consideration.</p>
<b>Disadvantages</b>	<ol style="list-style-type: none"> <li>1. Large scale of social costs. (Pollution, Accidents, noise, etc)</li> <li>2. Private Sectors are not willing to produce goods and services if they are not profit making.</li> <li>3. Red Tapeism, corruption and bureaucracy is commonly found.</li> </ol>	<p>These costs are often imposed on taxpayers.</p> <p>Business firms are reluctant to produce public and merit goods.</p> <p>There is rigid conformity to formal rules that it hinders active decision making.</p>