

Ch-4 Types of Economies

Good Morning Students,

This lesson is for class 9th for the subject of Economics. The topic for today is "Types of Economies on the basis of ownership" which is covered in Chapter 4 titled "Types of Economies" of your book. This lesson is being submitted to you on 20.05.24.

All the students now please open page no- 40 of your book and listen carefully.

An economy is influenced by the social framework of the society, political structure and level of the economic growth of the country. Therefore, an economy can be classified either on the basis of ownership or on the basis of nature of economic growth.

Classification on the basis of ownership over the means of production:

(1) Capitalistic Economy:

Capitalism is a form of economic organisation in which means of production i.e. land and capital are owned by private people. People are free to make use of their wealth and capital. Economic activities of entrepreneurs are guided by self-interest and profit motive. Capitalist economy is also known as free economy and laissez-faire economy. A capitalist economy is called a laissez-faire economy. In the

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sense that there is no interference by the government in the economy.

Features of Capitalist Economy:

1. Private Property and Inheritance:-

The main feature of a market economy is the existence of private property (a property which is owned by a single individual or by a group of individuals is known as private property) and the system of inheritance. Everyone has the right to acquire property and pass it on to their children after death.

(2) Freedom of Enterprise and Contract

The second main characteristics of this economy is that every individual has freedom of enterprise and is also free to enter into any contract. Each person has the right to start a business of his own choice. Each person has the right to choose occupation of their choice according to their ability and training.

(3) Freedom of Consumption:-

Every individual is free to consume any commodity upto any extent. Consumer here is treated as a king. Therefore, demand of the consumers determines the nature of goods and services to be produced in the economy.

(4) Free Market:-

In Capitalist Economy, markets are completely free. Every individual or firm can enter

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the market and start production any time. Each buyer is free to purchase commodities at a lower competitive price in the market. Sellers are also free to enter or leave any particular market.

(5) Profit Motive:-

Under Capitalism, main objective of every producer is to earn maximum profits. Therefore, producers produce only those goods whose price is maximum and cost is less. Hence, all economic activities are guided by the sole objective of profit motive.

(6) Class Conflict:-

Under this economic system, the society is divided into two classes, the haves and have-nots or the rich and the poor. These two classes are always on the path of war with each other. The rich have a tendency to exploit the poor.

(7) Competition:-

Under Capitalism, there is high degree of competition in the commodity as well as factor markets.

(8) Laissez-Faire State:-

Under the capitalist economy, the government does not interfere in the economic activities of the society. The main function of the state (government) is to maintain law and order in the state and to safeguard the interest of its citizens.

(9) Market Mechanism (Price Mechanism):-

In a capitalist economy, all central

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problems of economy are being solved by the instrument of price mechanism. Price mechanism constitutes the ~~base~~ very basis of demand and supply. It is the price which equates the demand and supply of commodities and factors of production.

(2) Socialist Economy:-

A socialist economy may be defined as an economic system in which the means of production (land and capital) are owned by the public authority (i.e. the state) according to a general economic plan for the benefits of the whole society. Socialism emphasises three crucial things. These are:-

- (i) Means of production are in the hands of the state or the entire community.
 - (ii) The use of resources is carried out through planning.
 - (iii) Social welfare is the chief motivating force behind all the economic activities.
- Socialist system of economy is still prevailing in countries like China, Cuba and Vietnam.

Features of Socialist Economy:-

(i) Social Property:-

In a socialist economy, all properties belong to the society. The private property is totally abolished. All the means of production such as land, mines, factories, banks etc.

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are owned by the state.

(ii) Government is the only producer!-

In a socialist economy, the production of various commodities is under the control of the government. Hence, all the basic or central problems are solved by the government through the instrument of economic planning.

(iii) Social Welfare!-

Social welfare is the chief motivating force behind all economic activities. A socialist economy wants to maximise the interest and welfare of the entire society. Therefore, some commodities are produced even there is a loss to the government.

(iv) Economic Planning!-

A socialist economy is basically a planned economy. The Central Planning Authority takes important decisions as "What to produce?", "How to produce?" and "For whom to produce?". Economic planning under socialism is deliberately flexible and it is reviewed according to change circumstances and needs of the country.

(v) Economic Equalities!-

Economic equality is the main feature of socialist economy. Inequalities of income are considered socially unjust, politically undesirable and economically bad. Socialism aims at providing equal opportunities of employment to all.

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(vi) Absence of Competition:-

Under socialism, government is the only producer. Therefore, there is no scope of competition among different production unit.

(vii) People's Cooperation:-

Under socialism, the economy works with full co-operation of the members of the society. Without people's co-operation the planned targets cannot be fulfilled.

Before going further, let's take a short break. Write the answers of following questions during the break.

1. What is Socialist Economy?
2. What is laissez-faire Economy?

Mixed Economy:-

Mixed economy is a mixed form of capitalism and socialism. In this economy, the best elements of capitalism as well as socialism are present and bad features of both are avoided. In this economy, private property is allowed and their motive is to earn profit. At the same time government puts control on private enterprises to check the defects of private enterprises.

There are two types of Mixed Economy:-

- (i) In the first type of mixed economy is

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that in which means of production are in the ownership of private people and government interfere in the economic affairs indirectly. It regulates and controls the activities of private enterprises through direct controls and monetary and fiscal policies.

In this type of mixed economy, government does not take over the means of production and government does not participate in the production process.

- (2) In the second type of mixed economy, government not only regulates and controls the private enterprises through various types of direct controls and appropriate monetary and fiscal policies, but also directly participate in the production of various goods and services. Indian economy is the best example of this type of mixed economy.

Features of Mixed Economy:-

- (i) Co-existence of private and public sectors:-
Co-existence of public and private sectors is the main feature of a mixed economy. In public sector, industries of national importance such as defence industries, basic industries and power generation etc. are set up, while in private sector, consumer goods industries, agriculture, small scale industries are developed.

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(ii) Co-existence of Price System and Economic Planning:-

The ^{both} main feature of such an economy is that the price system and economic planning are in operation. Plans are made mainly for the public sector.

For private sector, the demand-supply mechanism or price determination is allowed to function subject to certain regulations through price control, fixation of minimum wages and other such measures.

(iii) Price Control and Rationing of Consumer Goods:-

If the price of a commodity in the open market is too high, the government imposes a price ceiling and supplies the commodity in limited quantities at reasonable prices through ration shops to the consumers.

This is known as rationing.

(iv) Role of Government:-

In a mixed economy, there is a positive role of the government by way of some controls and regulations, to regulate private sector. Government also promote social welfare with the help of various social security schemes. It also provides various facilities like education, health, sanitation etc.

(v) Reduction of Inequality of Incomes and Wealth:-

In this type of economy, government make use of various positive and negative incentives to remove disparities in income

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and wealth. The government try to reduce unequal distribution of income and wealth by use of system of progressive taxation and levy of various duties etc.

4. Distinction between Capitalistic, Socialistic and Mixed Economies

Basis	Capitalist Economy	Socialist Economy	Mixed Economy
1. Ownership	Means of production are owned and managed by private people.	Means of production are owned and managed by the Government.	Means of production are owned by the government as well as by private people
2. Motive	Economic activities are guided by self-interest and profit motive.	Economic activities are guided by the motive of social welfare.	Economic activities of enterprises are guided by both social motive and profit.
3. Solution of Central Problems	All central problems are solved with the help of price mechanism.	All economic decisions are taken by the Government through economic planning.	Price mechanism and economic planning both are at work simultaneously.
4. Nature of Occupation	There is complete economic freedom. Individuals have freedom of enterprise. People are free to start any type of business of their own choice.	People are not allowed to start their own business. There is no private enterprise. Government is the only producer.	Limited sovereignty.
5. Competition	There is free competition in all fields of production.	Since Government is the only producer, it avoids all sorts of competition.	There is low degree of competition.
6. Distribution of Income	There is the existence of large inequalities of income.	Inequalities of income are relatively very small.	Income inequalities are there. But national income is not highly unequal.
7. Economic Fluctuation	Economic fluctuations are widely seen.	Economic fluctuations have no place here.	Economic fluctuations are found here.

With this, I am ending my topic here.
Write the answers of following questions in your note-book

- 1- Explain the difference between Capitalist and Socialist Economy.
- 2- What is Mixed Economy?
- 3- What is Capitalist Economy?