

Why do most countries today have mixed economies? essay sample

[Finance](#), [Market](#)



Nowadays, most countries prefer to have joint economic systems, of both planned and market systems which is known as mixed economy. “ In a mixed economy, the government and private sector interact in solving economic problems” (David B, 2009: 327). In other words, mixed economy is a combination of market economy and centrally planned economy. “ A market economy is an economy in which decisions about production and consumption are made by individual producers and consumers.” (Krugman P, 2008: 2)

To start with, some countries have a free market system. “ In a free market, decisions about what to produce are determined by supply and demand in product markets.” (Gillespie A, 2007: 114) In a free market producers have profit maximizing objective and consumers are aiming to maximize their utility. Most economists argue that the free market system is perfect in maximizing welfare of society as it has so called market forces which..... Therefore there is no need for government intervention as there is a big possibility of government failure. “ In a free market system, the price mechanism will adjust to equalize supply and demand. At this point, the welfare of society will be maximized.” (Gillespie A, 2008, 115)

Therefore, most economists assume that market forces allocate resources efficiently and productive efficiency occurs as well. “ In a market where there are many buyers and sellers, competition forces producers to produce at lowest cost” (Anderton A, 2008: 92) Many other economists think that if market is left by himself it often fails to allocate resources efficiently. DEF. Free market often leads to monopoly. DEF. If one firm dominates more than

25% of market than it means that this firm has monopoly power. Monopoly is a market failure, because producers who dominate the market often sell products at higher prices, because of lack of competition. They although will not be motivated to produce at higher quality and lower costs, because of lack of competition, therefore resources will be allocated inefficiently. Market system creates externalities. DEF. Market system usually under provides positive externalities such as education and hospitals and over provides negative externalities such as alcohol and cigarettes.

Another system which was used in USSR and in many other communist countries is centrally planned system. “ A centrally planned economy is one in which the total direction and development of a nation’s economy is planned and administered by its government.” (Encyclopedia of Business, ©2000 Gale Cengage) Unlike market economy where individuals decide what to produce, how to produce and for whom to produce, in centrally planned economy state owned enterprises make those decisions. In other words in centrally planned economy government controls all the aspects of economy. The main advantage of this system is that the total control creates an even distribution of products.

This type of system is ideal for communist countries whose aim is to defeat unequal distribution of income and wealth. This type of system is although ideal when country is undergoing difficult times such as war. However, as history has showed it is very hard to organize centrally planned system and often it leads to inefficient resource allocation. It is hard for government to set up prices for products, and often before they reach equilibrium price

enormous amounts of products are over produced or under produced, creating excessive demand and excessive supply. There is although lack of choice for the consumers as there is only limited amount of goods and services which government provides. Another disadvantage is that it is really hard for the government to control all the aspects of the economy.

Government wastes a lot of time and money trying to communicate with firms giving them instructions and making any other regulations. Inspire of all those disadvantages mentioned above there are still many countries who prefer to have centrally planned system. For example Cuba, Turkmenistan, Belarus, Iran and other countries still use this system.

Most countries all over the world prefer to have mixed economy. In this system government can intervene in market and control some aspects of economy but there is still the same freedom as in market system. In other words, mixed economy has characteristics of both market economy and centrally planned economy.