

Economic questions

[Economics](#)



QUESTION 1 What are the THREE (3) basic economic questions that all economies must answer? Describe the differences in the way capitalism and socialism answer these questions. Scarcity, Choices, Opportunity Costs We live in a finite world. No matter how seemingly bountiful the quantity of our natural resources may be or how carefully human try to conserve them, if we keep using them, they eventually are going to run out. Our tastes for goods and services are virtually limitless and this creates scarcity. Like the Rolling Stones song says, " You can't always get what you want. Because we can't have it all, we're forced to make choices. When we making a particular decision, we forsake opportunity to choose the alternative option. Briefly, opportunity cost analysis is an important part of decision making process. All economies must decide WHAT to produce, How to produce and FOR WHOM to produce with its limited resources. These are the three basic economic questions that every society must consider when making choices. 1) What goods and services will be produced? - 2) How will they be produced? 3) For whom will they be produced?

Economic system refers to the way in which the society solves the basic economic problems of scarcity of resources. Different economic systems have addressed the three basic questions in radically different ways. [Samuelson 2005, pg. 7] Capitalism In a capitalist system, economic questions are answered by buyers and sellers at mutually agreeable terms. Capitalism refers to an economic system based on a free market, open competition and profit motive in which property is owned by either private individuals or corporation.

Capitalism encourages private investment and business, compared to a government-controlled economy. In a capitalist economic system most productive assets are held by private owners, and most decisions regarding production and consumption is made by the use of 'price mechanism' in the market rather than government fix. Most prices are determined by the interchange of numberless and typically anonymous buyers (demand) and sellers (supply) within a competitive markets. The law of supply and demand is what drives the free market economy.

Supply and demand is what sets the prices of goods and services in the free market economy. As supply goes up the prices go down. When the demand goes up the prices go up. Due to low government control, people are free to spend their money the way they want to. Capitalism thus suggests a system of economic regulation that involves minimal government involvement. The authorities do not have a say in the economic decisions of individuals. Some examples of countries close to capitalism are The United States of America, Germany, and England.

Under fully developed capitalism, like in the USA, it is the class of capitalists that exploits the class of workers. [FLVS, 2000-2006](Online) Socialism On the other end of the spectrum is a socialist system. The answers to the basic economic questions are made by a central authority, usually the government. Socialism is an economic system whereby the means of production are seized and monopolized by the government without compensation to the builders of the capital, and where investments, production, distribution, income, prices, and economic justice are subject to administer substantially by the government.

Socialism seeks to prioritize human welfare over other goals, such as profit and wealth. In socialism, there is very little private property and the government is directed for all major economic decisions including prices. A central authority draws up plans that establish what will be produced and when, sets targets and objectives, and makes rules for allocation of resources accordingly to achieve the targets. Individuals are not allowed to take risks so there are no rewards to benefit from. China, Vietnam, North Korea and Cuba are example of socialist countries. Ranjeeta Prasad, May 2000](Online) QUESTION 2 For many years American referred to the peoples' Republic of China as " Communist China. " Why would that label be misleading today? Communist China The Communist Party of China is the ruling political party of the People's Republic of China. The Communist Party of China was founded in 1921 and the party was small at first, but grew intermittently through 1920s. It became formally allied with the Kuomintang (KMT) in 1923. In 1927 the Communist Party of China split from the Kuomintang party.

The only major section of the party which survived was the section built around Mao Zedong. The Peoples' Republic of China was regarded as Communist China. Since it was established in 1949, it has been led by the Communist Party of China. Chairman Mao is the founder of the People's Republic of China in 1949 and one of the founders of the Chinese Communist party in 1921. He is known as one of the most prominent Communist theoreticians. The Communist Party of China takes Marxism-Leninism, Mao Zedong Thought, Deng Xiaoping Theory and the important thought of Three Represents as its guide to action.

From 1921 to 1949, the Communist Party of China led the Chinese people in their tough armed struggle and finally succeeded in overthrowing the rule of imperialism, feudalism and bureaucrat-capitalism and establishing the People's Republic of China (PRC). After the founding of the PRC, the CPC led the Chinese people of all ethnic groups in defending the independence and security of the country, successfully completing the transition from new democratic revolution to socialist revolution, carrying out systematic large-scale socialist construction, and achieving economic and cultural progress unparalleled in Chinese history.

From 1979, the CPC began to carry out the reform and opening-up policy initiated by Deng Xiaoping. In more than two decades since the initiation of the reform and opening-up, China's economic and social development has been crowned with remarkable success and the country has taken on a new look. This has been the best period since the founding of the PRC in which the Chinese people have reaped the most material benefits. The Communist Party of China is the forefront of the Chinese working class as well as the Chinese people and the Chinese nation. It is the core of leadership for the cause of socialism with Chinese characteristics.

The Party represents the development trend of China's advanced productive forces, the orientation of China's advanced culture and the fundamental interests of the overwhelming majority of the Chinese people (the Three Represents). The Chinese Economic Reform From Wikipedia, the free encyclopedia [Online], the Chinese Economic Reform refers to the program of economic reforms called "Socialism with Chinese characteristics" in the People's Republic of China that were started in 1978 within the Communist

Party of China led by Deng Xiaoping and are ongoing as of the early 21st century.

The goal of Chinese economic reform was to create sufficient surplus value to finance the modernization of the mainland Chinese economy. The initial challenge of economic reform was to solve the problems of motivating workers and farmers to produce a larger surplus and to remove economic imbalances that were common in command economies. Economic reforms started in the late 1970s and early 1980s consisted of opening trade with the outside world, instituting the household responsibility system in agriculture, by which farmers could sell their surplus crops on the open market.

The economic reforms of the late 1980s and early 1990s focused on creating a pricing system and decreasing the role of the government in resource allocations. The reforms of the late 1990s focused on closing unbeneficial enterprises and dealing with insolvency in the banking system. Chinese economic reform has been an economic success, generating over two decades of rapid economic growth. The standard of living of most Chinese has improved markedly since 1978. Throughout China one can observe the fast modernization of infrastructure, such as new superhighways, airports, and telecommunications conveniences.

The first parts of Chinese economic reform involved implementing the household responsibility system in agriculture by which farmers were able to maintain surplus over individual plots of land rather than farming for the collective. This was followed by the establishment of Township and Village Enterprises (TVE's), which were industries owned by townships and villages. The second phase of reform occurred in the 1980s and was aimed at

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creating market institutions and converting the economy from a government-controlled economy to market economy.

This difficult task of price reform was achieved using the dual-track pricing system, in which some goods and services were allocated at state controlled prices, while others were allocated at market prices. At the end of 1988, in reaction to a surge of inflation caused by accelerated price reforms, the leadership introduced an austerity program. China's economy regained momentum in the early 1990s. During a visit to southern China in early 1992, China's paramount leader at the time, Deng Xiaoping, made a sequence of political pronouncements designed to refresh the process of economic reform.

The 14th Party Congress later in the year backed Deng's renewed push for market reforms, stating that China's key task in the 1990s was to create a "socialist market economy." The 10-year development plan for the 1990s stressed continuity in the political system with bolder reform of the economic system. . QUESTION 3 How far has China evolved into a market economy? To what degree has this evolution contributed to China's economic growth? Effect of the Economic Reform Gross Domestic Product (GDP)

GDP stands for Gross Domestic Product and is defined as the total market value of all the goods and services produced within the borders of a nation during a specified period. Since economic reforms, China's economy has grown substantially faster than the pre-reform period (see Table 1). Chinese statistics show real GDP from 1979 to 2004 growing at an average annual rate of 9.3%, making China one of the world's fastest growing economies. Real GDP grew by 9.5% in the first quarter of 2005. Time Period Average

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Annual % Growth 1960-1978 (pre-reform) 5. 1979-2004 (post-reform) 9. 3
1990 3. 8 1991 9. 3 1992 14. 2 1993 13. 5 1994 12. 7 1995 10. 5 1996 9. 7
1997 8. 8 1998 7. 8 1999 7. 1 2000 8. 0 2001 7. 3 2002 8. 0 2003 9. 1 2004
9. 1 2005 (first quarter) 9. 5 Table 1. China's Average Annual Real GDP
Growth Rates, 1960-2005* Economic Growth After 1949, the single most
important policy objective of the Communist Party led by Mao Zedong was to
make China politically united, economically strong, and above all to
eliminate poverty. Economic development over the period 1949-78 was very
impressive.

Apart from the three years of great food crisis in 1959-61, people's living
conditions were rarely much better than in the pre-1949 period. However,
due to many political struggles, especially the Great Leap Forward Movement
(1958-61) and the Cultural Revolution (1966-76), production incentives were
covered up and the economy failed to perform to its potential [Lardy, 1983].
Economic growth in China since 1978 has been magnificent. People's living
standards has been improved. Rising incomes, however, have been unevenly
shared among the people.

In the early years of reforms (1978-84), massive growth in agricultural
production and rural incomes was unleashed by the household production
responsibility system and a great improvement in agriculture's terms of
trade. The following decade (1985-94), however, witnessed government's
unhelpful attitude towards rural prosperity, when state policies were geared
towards supporting the urban economy and subsidizing state-owned
enterprises. Fast growth of TVEs enabled the rural population to improve
their living standards considerably.

However, uneven development of TVEs has contributed to the ever growing inter-regional inequality among the rural population. In those provinces where TVEs have grown fast, rural people enjoy a similar lifestyle to that of their well off urban counterparts. However, in the backward and still largely agrarian areas, the improvement of living standards has been minor. Although official data show that 200 million people have been lifted out of poverty, when measured using the higher poverty line, China still has 170 million people living in poverty

Employment

Based on the overview of Wayne M. Morrison, 2005, China will enter a new era of building a moderately prosperous society in an all-round way in the first two decades of the 21st century. The Chinese Government is clearly aware that in this period the country will still face severe employment pressure due to various factors, such as the huge population base, age structure of the population, population migration, and the process of social and economic development. In the coming 20 years, China's population above the age of 16 will grow by 5. million annually on average. By the year 2020 the total population of working age will reach 940 million. In the period of the Tenth Five-Year Plan (2001-2005), the population of working age is growing at the fastest rate, increasing by 13. 6 million annually on average. While the population of working age keeps increasing, there are now 150 million rural surplus laborers who need to be transferred, and over 11 million unemployed and laid-off persons who need to be employed or reemployed.

The contradiction between overall supply of and demand for labor is thus sharp, and the problem of structural unemployment, characterized by a mismatch between the quality of the Chinese labor force and job

requirements, is becoming more and more conspicuous. However, in the early years of the 21st century there are many favorable conditions for solving China's employment problem: The Chinese Government pays close attention to the problem of employment, adheres to the principle of putting people first, keeps to the concept of overall, coordinated, sustainable development and promotes the all-round development of society and man, thus laying an ideological basis for further solving the problem of employment. After many years of exploration and practice, the general policy for solving the employment problem has been settled, with a clear direction and matching measures, and a market-oriented employment mechanism has taken shape, thus providing guarantees in policy and mechanism for solving the problem of employment.

The economy keeps developing in a sustained, rapid, coordinated and healthy way, revenue is growing rapidly, the readjustment of the economic structure is progressing smoothly, enterprises are gaining better economic returns and tertiary industry is developing at a faster rate - all these will certainly contribute to increasing job opportunities.

The implementation of the strategies for promoting the coordinated development of different areas, such as developing the western region, revitalizing old industrial bases in the northeast and other regions, promoting the rise of the central area, and encouraging faster development of the eastern area, as well as accelerated urbanization, will bring new opportunities for solving the problem of employment. With the in-depth implementation and improvement of various policies for increasing employment, the policy effects will be further released and

the environment for employment and starting businesses will be further improved.

Standard of Living Before 1949 the Chinese economy was characterized by widespread poverty, extreme income inequalities, and endemic insecurity of livelihood. By means of centralized economic planning, the People's Republic was able to redistribute national income so as to provide the entire population with at least the minimal necessities of life and to consistently allocate a relatively high proportion of national income to productive investment.

Equally important to the quality of life were the results of mass public-health and sanitation campaigns, which rid the country of most of the conditions that had bred epidemics and lingering disease in the past. The most concrete evidence of improved living standards was that average national life expectancy more than doubled, rising from around thirty-two years in 1949 to sixty-nine years in 1985 . [geographic. org] (Online) In 1987 the standard of living in China was much lower than in the industrialized countries, but nearly all Chinese people had adequate food, clothing, and housing. In addition, there was a positive trend toward rapid improvements in living conditions in the 1980s as a result of the economic reforms, though improvements in the standard of living beyond the basic level came slowly. Until the end of the 1970s, the fruits of economic growth were largely negated by population increases, which prevented significant advances in the per capita availability of food, clothing, and housing beyond levels achieved in the 1950s.

The second major change in the standard of living came about as a result of the rapid expansion of productivity and commerce generated by the reform measures of the 1980s. After thirty years of austerity and marginal sufficiency, Chinese consumers suddenly were able to buy more than enough to eat from a growing variety of food items. Stylish clothing, modern furniture, and a wide array of electrical appliances also became part of the normal expectations of ordinary Chinese families.