

Planned economy vs free market assignment



The economic problem we face is because humans have a limitless number of wants but there are a limited number of resources, what should be produced, how should it be produced, and for whom should it be produced?

The economies created are set up to address this issue with two main solutions: the free market economy and the planned economy. The name free market economy essentially explains itself; businesses are privately owned without intervention from the government.

The economic problem is addressed by the forces of supply and demand. This means that, based on the consumer's choices, producers will choose how much to supply. In a planned economy, the government says what to produce, how much, and for whom in order to please the masses. Everything in this type of economy is owned by the state. Although some countries may lean more towards one type than the other, most of the economies in the world are mixed. Neither a planned economy nor that of free market is perfect.

A free market economy is more successful at motivating competition to occur. Since it is basically every man for himself, every man does in fact work to create a good quality of life. One big advantage is that resources are distributed in a better way using prices, allowing the economy to work more efficiently. However, surpluses and shortages can occur when the demand of one product changes to another. This means that the price of the product in surplus must go down so it is more widely available.

Thus, the price of the product in shortage will go up until the other product is bought. Then the production can be switched to that of the product higher in

demand. Because this economy is driven by the profit motive, a purely free market economy can be a terrible thing. The big companies will become corrupt and prey on other industries eating to an extreme amount of pollution, high prices, and excessive control. To fix this, like in the United States, government involvement has been integrated into the economy.

Those who are negatively affected by the unfair system of profits and losses are supported with taxes while the wealthy are the ones being taxed.

Whereas competition is at the heart of a free market economy, there is no real motivation for those in a planned economy. The government simply decides what will be produced leading choice for consumers to be very limited. For this type of economy to be one hundred percent successful, an enormous amount of information has to be collected in order to predict what consumers may want and how much businesses are able to produce.

This information is very difficult to obtain and so the economy doesn't always operate smoothly. The government is also very prone to becoming corrupt because they have so much control. However, some of the control they do have can work as an advantage. Although it doesn't leave much choice for the consumers, the government can stop the production of undesirable goods. They can also change the distribution of income so as to make it more equal.

Nearly all countries have a combination of both a free market and a planned economy; free markets are used to promote efficiency in resource distribution and when the markets fail, government planning is used to help redistribute the income. The fact that many countries that once had planned

economies have changed to a free market system. The latter NAS a more positive effect. Yes, Ursula Ana c have showed that a planned economy can work when a country is developing economically, but they have failed to stay stable. Of course a purely free market economy can be dangerous as well, but it has been more prosperous over time.