

Good market economy versus command economy system essay example

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Economists use the term Ceteris Paribus to indicate that 'all other factors' that could impact the consequences of one variable over another are held 'constant or same'. The economists usually apply Ceteris Paribus in Law of Demand and Supply to provide an understanding to learners that there are several external factors that impact consumer demand and buying patterns. Similarly, there are supply side variables that could impact market demand, economic decisions and market equilibrium. In other words, the economists study how one variable could be affected by another if all other variables are kept constant.

Market Economy system is also known as Free Market or Free Enterprise system because the government does not interfere in economic activities instead allow market demand and supply forces to determine equilibrium point, where there is no shortage or surplus output and all consumers / producers are satisfied with price and output. In other words, the Free Market system has several (not absolute) unplanned economic activities. A fundamental characteristic of Free Market Economy is private ownership of factors of production that allow businesses and individuals to exchange resources and determine output through contracts. The system could also be named as Capitalist economy (Lipton, Sachs, Fischer and Kornai, 1990); (Swinnen & Gow, 1999). In contrast, the Command Economy system is also as Planned Economy, which is subject to government intervention, authorization, strategic direction, monitoring, control, regulatory measures and decisions that ensure that the market forces attain equilibrium point that could satisfy consumer / producer needs and wants. In other words, there is minimal private ownership because factors of production are owned by

government; therefore, the private sector could not exert its bargaining power to manipulate consumers for economic benefits. The government policies and interventions determine whether they are favorable for mass market or for producers (Grossman, 1963).

References

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