What are the foundations of the study of economics explain how the market economy...

Business, Marketing

There is a difference of view between the good economists and the conventional economists regarding the foundations of their subject; the former believe that virtually these are non-existent while the latter provide the reasons being the issues of unemployment and inflation. Though, the conventional economics has a greater influence on the life of the public, but the truth is that it tends to provide misleading views regarding the operations of the world. Mark Lutz states in his book Economics for the Common Good that: “ Modern economics is the science of self-interest, of how to best accommodate individual behavior by means of markets and the commodification of human relations. There is no room for logic of human values and rationally founded ethics” (1999).

In simpler words, economics is defined as being a science which is directly related to competition, scarcity, production, consumption and finding the way to satisfy the unlimited desires of the public. The study defines both the means and the ends in material or monetary terms; all the non-material values are completely subjective in nature and so are not considered within the scope of Economics. The economic theory is based upon the condition that the economic resources are both finite and scarce which means they are limited and can be finished when used. So the economic theory accepts that there is a natural competitions present between these resources; study of economics is based on this natural competition which the man experiences for the scarce resources.

As the root of economics has been defined, it can be said that economics is the study of how people make choices between what resources to use. The resources are not limited to the gems and stones; rather it includes the talent of the people, buildings, equipment, tools, time and even the knowledge of the people who would make use of all the available resources to create something highly useful. All these resources are applied by the people to enhance their well-being which includes gained satisfaction through the consumption of goods/services, from spending leisure time with their family and on job, along with the security from the governments.

In brief, it can be said that the economics is based upon studying the land, labor, investment, production as well as the revenue and expenditures of the government. In addition to studying the behavior of the individuals, economics also focuses upon the collective behavior of the governments, the corporations, the countries and even the globe (Arnold, 2008). The study of economics is divided into two parts: microeconomics addresses the issue of how decisions are made by individuals while macroeconomics is concerned with the aggregate outcomes. The study of economics can be defined through different aspects as given below:

- “ Economics is the study of people in the ordinary business in life” (Marshall, 1949).
- “ Economics is the science which studies a relationship between given ends and scarce means which have alternative uses” (Robbins, 1984).
- “ Economics is the study of how societies use scarce resources to produce valuable commodities and distribute them among different people” (Samuelson, 1958).

There are basically three types of economic systems including the market economy, the Planned Economy and the Mixed Economy. There is no ideal economic system but most economists believe that the Market Economy is closer to the ideal system. Market economy is referred to that system where the economy is actually regulated through the demand and supply instead of the intervention from the government. Overall, the market economy is defined as that economy where the power of taking all the decisions rests with the producer including: what to produce, the amount to be produced, price to be charged to the customers and even what wages to be paid to the employees. In actual, all these decisions are made by the producer but with the influence of the pressures created due to changes in supply and demand along with competitive forces (Ferrera, 2011).

The central element of the market system is that the resources should be allocated according to the needs and requirements of the economy. In brief, the major characteristics of the market system of economy include:

- People as well as the businesses own the resources privately
- The main objective of the businesses is to generate profit
- Government does not interfere in the activities of the business
- Producers have complete authority to decide what to produce, how much to produce and for whom to produce
- Consumers have free will to make a choice for consumption of goods
- The supply and demand of the good in the market leads to the decision of price

Market economy is also known as a free enterprise economy and this is mainly because of the limited role that the government has to play in this economic system. With the decision powers resting with the producers and the consumers, high competition is promoted within the economy which leads to the efficient use of the available resources (Emmett and Biddle et al., 2009). The market economy regulates by itself and so is also a self-adjusting economy where there is no necessity for the government to intervene in a significant manner. As already discussed, the resources are owned privately which means that all the goods/services that are produced by using those resources are also owned privately. When this private ownership is combined with the free power to negotiate the contracts, the people gain the power to choose as they will.

In all the eras, the society has been facing the economic problem of deciding the target market and the required good to produce. In the market system, the focus is on the private enterprises as compared to the command system. The market system provides evidence that individuals and the societies can lead prosperous lives if they deal economically; this system is highly flexible, practical, decentralized and changeable. In actual, there is this “ invisible hand” accompanies by clear freedom to the consumers to make a wise choice; and to the producers so that they can take risks and expand at will (Ferrera, 2011). Even the employees are free to choose where to work.

In addition, there is a high involvement of inequity in this system while the freedom remains preserved and there are opportunities for growth in the economy. Therefore, the market economic system integrates the risk with the opportunities in order to establish the system. The workers, producers and the consumers use their resources freely such that the people are satisfied. The freedom in the market economy nevertheless requires complete investment of efforts, time, and resources while spending carefully. The invisible hand in the system tends to control the key players so that they use the economic resources in an efficient manner. It encourages the business owners to generate healthy competition while producing good products, paying their employees fair wages, selling the products at the market price and being courteous with their customers. Concluding, market economy seeks to provide high quality products so that the consumers are satisfied and owners remain profitable.

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