

# Four basic types of economic resources



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The economic problem is one of the fundamental economic theories that can be found in most of the economy systems. All societies face the same economic problem, which is how to fully utilize the scarce resources in the economy itself. The economic problem always exists; due to the demand of people are infinite, and the supply that is available to satisfy the market demand is limited due to the limited resources.

There are four basic types of economic resources in the world, which are land, labour, capital, and entrepreneurship. Land comprises all natural resources and supply which we require as a fundamental to the production of all goods. Labour is a measure of work done by human beings. It includes a variety of technique work. The size and the quantity of labour force always tend to be increased to achieve economic growth. Capital goods are durable goods that used in production of goods or services. It is essential for the firms to make functional goods. An entrepreneur is a person or group that marshals resources in the production of final goods. Bill Gates is one of the best known successful entrepreneurs in present day. He owns one of the world largest enterprises, “ Microsoft”, contains a great amount of capital and resources to make great impact to the global economy.

### The Four Resources

These four resources are combined to produce outputs that meet human needs. People meet trade-off and choices because of the scarcity of the resources. The addition of one of the resources makes them need to give up another one. For the “ owner” of these resources, they earn, rent, wages, interest, and profit, respectively as their resource payments.

The allocation of these four major types of economic resources will directly affect the economic problem. Therefore, through the advancement of human society and came to present day, two major economy systems were formed to make the allocation of these resources to be efficient and productive. They are planned economy and mixed economy.

Economic system is an organized way to allocate its resources and apportions goods and services in the national community among the population. It involves production, allocation of production inputs, distribution of outputs, land availability, household earnings and expenditure, financial institutions and government policies. Certain economic system is determined by the status of the development of social productive power and their social relations. The economic system of a society, called the basic system or the basic economic system, provides the overall directions of the social economic activities. Therefore, once the economic system in a society was established, they would have their social development remain unchanged to bring the nation to achieve the goal of prosperity. Thus, if the fundamental changes occur in allocation of resources and goods, the economic system of this society will be changed in the respond of the various changing circumstances.

#### Relative Merits of the two systems

A centrally planned economic system is made by the state or government rather than by the interaction between consumers and businesses. Under centrally planned economic system, the three basic economic questions which are what to produce, how to produce and for whom to produce are

decided and arranged by the government based on the society and market's demand. Most of the resources in the country are owned by the government and the allocation of resources followed by the instructions of government but not the market price. In centrally planned economic system, not only nationalized industry controlled by the government and also the private enterprises. The government manipulate the supply of production, prices as well as the sales channel. People in the country will get their goods and supplies by the allocation of government under the ratio of work, needs but not the capital.

In planned economy all major decisions of all markets are decided by the government. The role of government is setting prices and supply of every good. Lack of freedom of choice for consumers and producers. Due to the lack of competition and profit motive may lead the producers have no incentive to be efficient and labour has no incentive to improve itself. Hence the adaptability of the economy towards changes is extremely low. Planned economy also suffers from the government bureaucracy that cause the delay in decision making. The lower productivity and the lower growth leads the government cannot react fast to keep pace with other countries and might cause recession.

During the year 2011, United States Postal Service (USPS), facing bankruptcy due to the large congressional control by the US government. USPS was explicitly authorized by the United States Constitution since 1775, is an independent agency of the United States government responsible for providing postal service cross the states. For the first time in 40 years, USPS came with an unprecedented cut to first-class mail, eliminating the chance

for stamped letters to arrive the next day. In figure 1, shows the earnings (in \$ Billions) for the USPS since year 2002.

Since year 2002, USPS is been making less profit until year 2005. Starts from year 2002, making 4.6 Billion in earning, 3.1 Billion in year 2003, 1.6 Billion in year 2004, and finally only one Billion in year 2005. Based on the statistics until year 2005, there is no doubt about USPS is not running the business and services right. Therefore, USPS have changed certain policies in the counter of losing profit, for example, fewer delivery days, reduced staff, etc. Although USPS does not receive tax money, but it is under congressional control by the government in large aspects of its operation. For example, USPS can't raise the prices of postage that beyond of a certain margin of the national inflation rate, while the other costs rose in prices. Regardless, the usage of postage services were greatly reduced due to increased used of cell phones and email; there is no way electronic mailing could have postal services replaced. Hence, fewer delivery days could impact business activities in the nation.

Mixed economy could be known as a form of organization where the characteristic of both capitalist economy and socialist economy can be founded. Mixed economy has the advantages of both planned economy and market economy. The problems that created by free market and excessive government control are solved through this economy system. Private and public sector both can co-exist in the mixed economy. Both sectors work side by side to increase production outputs and achieve national and individual objectives. The combined efforts of both sectors adapt to rapid economic development. . Individuals are free to own properties and operate for-profit

business that retain on their own name. It can encourage them to work more and earn more. There is less government intervention among the citizens in the mixed economy, people are given more power as they can make their own decisions, thus producers and consumers can decide how much goods to be produced and consumed. In the mixed economy the role of the government is to restrict or help certain business as well places taxes, tariffs and subsidies to regulate trade. Government also can protect consumers against companies that gain too much power, except market competition. The existence of private enterprises and firms compete each other, hence it can improve the quality of goods and services in the domestic market. The strength is that the economy can be very agile and react quickly to consumer demands.

The mixed economy suffers from the drawbacks of both the market economy and planned economy. There are some production wastage occur in the economy. Besides, individuals need to pay taxes to the government that they cannot control because government controls the collections and spending of money. Market might can't work properly due to some unnecessary government interference.

China, one of the examples that have abandoned planned economy system and move on to develop mixed economy system. China practiced central planned economy during the period from 1953 to the end of 1970s under the direction of the State Planning Commission (SPC). It was the original purpose that directs the state-owned enterprises to product major productions in the economy. The responsible for the production of the corresponding products were fallen to several ministries, such products as agriculture, forestry,

chemical products, metallurgy, and etc. Since the end of 1970s, private enterprises were allowed to compete with state enterprises, while the Chinese government changed the economic system steadily towards a mixed economy.

Through table 1, we can observe that China government have made several of considerable improvement after develop mixed economy system in the nation. They have made the GDP of the country increased in total of 21. 3 trillion within 5 years. This could be happened when the market's output and price level rise. Besides, there is always great improvement in service sector and service employment, which increased 2. 5% and 3. 5% respectively. Although, China may trend to capitalism nation while it practicing mixes economy system, the government still make intervention to help the less wealthy citizen. Why say so? The rural net income has increased 8. 9% through the years. This means government been providing subsidies on certain essential goods or making several policies such price ceiling to prevent market failure.

## Conclusion

As a conclusion, both systems have their own merits. Centrally planned has proven itself for many countries have been practicing it for many years. By following the instruction of government, the crucial resources are fairly and efficiently distributed. In order to so, the government has nationalized both state-enterprises and private enterprises. The aim is theoretically to eliminate poverty since everyone will have a fair opportunity to get the necessities of life. However, producers will have no incentive to produce

efficient and labour has no incentive to upgrade the productivity. Hence the adaptability of the economy towards changes is extremely low. The government is not able to react fast enough to keep pace with the rest of the world and might result in recession. In other hand, mixed economy has the characteristics of both capitalist economy and socialist economy can be founded. The problems that created by free market and excessive government control are proven could be solved through this economy system. Private and public sector both can co-exist in the mixed economy. There is less government intervention among the citizens in the mixed economy; people are given more liberalities to make their own decisions. All the national resources are utilized efficiency as both public and private sectors are working efficiently in mixed economy. In order to keep on the pace with the world, one nation would or should develop mixed economy system instead of old-fashioned centrally planned economy.