

# Malaysia's mixed economy - the advantages of a mixed economy



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The economic systems is one of the branch of economics, the economics is studies about the institutions and the methods by the societies to determine the ownership, direction and allocation of the economic resources. Economic system is the mechanism that deals with the distribution, production and the consumption of services and goods in a particular society. There are three basic and general economic systems, which are free market economy, centrally planned economy and mixed economy. The mixed economy is when there is some level of the government policies and central planning and it also can allow the market to provide for the needs of the consumer. Malaysia is a mixed economy, our government allows that our market can do our own thing, but there also have a few of the policies in place to control over the certain thing. There is not every single product or industry need government to control, but some of the product should be under government control. For an example of one product that under Malaysia government control is gun. In Malaysia you cannot have a gun without the license. In Malaysia, the government has tight control over the gun. There are many reason why Malaysia government have this control, the reason are for the national security, our government wants to prevent shootings, robbery and gun violence minimize fear in our country.

There are many advantages of a mixed economy in different characteristics. About the resource allocation in mixed economic, the government will decides on the resource allocation about the commodities which are scarce. About the wealth ownership in mixed economy, there is a mixture of the government and the private ownership. For an example, some of the land are belongs to government and some of the land are belongs to private.

About the solution of economic problems in mixed economic, the government will intervene about it, especially to implement development policies. About the economic efficiency in mixed economy, the economy efficiency will depends on the government and private sector efficiency. Next, about consumer freedom in mixed economy, while the consumers have some say, their voices are not strong. For an example, if the petrol rise 50 sen in one liter, the people will complain about the price of petro, the government maybe will deal with this case or maybe not. About the distribution of income in mixed economy, the incomes of workers in some of the sectors are managed by our government. The example are the people who are work in the government place. After that, about the provision of services in mixed economy, some of the services are privatized and the government provides for basic services. Compare to free market economy and centrally planned economy, the advantages of mixed economy are many. The advantages are the people can go into business themselves and decide what product that they can sell, produce and they also can set their own price. The businessman in mixed economic need to pay taxes, but they can reap the benefits of the tax through the roads, social programs and other government services. The mixed economy are much more stable if compare to free market economy, and the government regulations can also prevent the exorbitant investment and inflation. Beside our country Malaysia, the economic systems in India, Thailand, Indonesia, and Singapore are also belongs to mixed economy.

What is the price mechanism? The price mechanism is the most basic feature of the economy for allots all the resources to other uses. It is a

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system of the interdependence between the supply of goods or service and its price. It sends up the price when the demand is over supply and it decrease the price when the supply over demand. Price mechanism also restricts the supply when the suppliers are leave the market because the low prevailing price, it also increase it when many suppliers come to the market. Price are determine by surpluses and shortage. If the price of product is higher than profit, the suppliers will supply more due to producer profit motive. The price mechanism are plays the three important function, they are signaling function, rationing function and transmission of preferences. First, the signaling function is use the change in demand to show that where the resources are required. For an example, if the goods are scarce, the price of it will increase. This increase in price can provide the supplier to produce more in this product. Prices rise and fall is reflect the surplus or scarcities.

The I phone 4 is the best-selling on this year, so the demand of the I phone 4 is very high. The producers confirm will produce more and increase the price of I phone 4 because they can earn higher profits and revenues from selling the I phone 4 at a higher price per unit. So the diagram shows an outward shift of the demand in the supply curve. Next, the diagram at the top of right hand side is the second example, the demand of the I phone 3 are decrease because the apple launch the I phone 4. The diagram show that decrease the price of I phone will cause the supply increase. Conversely, if the price of I phone 3 increase, that will induce the suppliers decrease their supply. Next, the second function that the price mechanism play is rationing function, this function is when there is a very high demand of one goods, the price of it will increase. Finally, the product maybe will become only the high income

people ability to pay the product. This function can cause the supply and demand to reach equilibrium. The third function is the transmission of preferences, this refers to the consumers are able to notice the producer changes in needs and wants, so this can help the market provides correct amount of the right product. After that, In Malaysia, the price mechanism is allowed to operate but in some cases the price mechanism fails or works against public interest. In economic, the market failure occur when the use of goods and services or the production by the market are not efficient. We say that when markets cannot provide us the best outcome in terms of efficiency and fairness, that is market failure. There are a lot of reasons that will cause the market failure, such as negative externalities, positive externalities, imperfect information, market dominance by monopolies, factor immobility and equity issues. First reason is an agent in the market can gain market power and allow them to block other mutually benefic gain from the trade. In the monopoly, equilibrium of the market will no longer to be Pareto optimal. Second reason is the actions of an agent can be externalities. For an example, when a firm producing the tires, it will use the capital, labour and other inputs, and this will cause the reflected of the price of the tires in the market. The firm maybe will make air pollution when they produce the tires. That is not force the firm to pay for use of this resource, all of the cost will be borne by the society. So, the market price of the tires will decrease and they cannot get the full opportunity cost when sell to society. This will also cause the market equilibrium in the tires will not be optimal. The third reason is some of the markets will fail because of the nature of their exchange or the nature of certain goods. While the markets have the

important transaction costs, information asymmetry or agency problem, they can cause inefficiency, and market failure.

Next, the government can overcome the market failures by using the three popular ways. The three tools that the government uses are internalization or merger, tax and subsidy plans and legal restrictions. The internalization or merger is means that the government merges two firms together to save their ailing or the management problems. It also can help the firm to increase their working rate, reduce the cost of product and develop a more efficient plant structure. For an example, there is a firm that produces lettuce picking machines, the machines cause the water pollution because the firm don't want to purchase the waste treatment facilities because it is expensive and they dump the wastes into the river. They think that is only a low cost and the machines can be offered for sale at low price. The more lettuce picking machines are built, will cause more water pollution. The ways that can overcome this problem is merge the lettuce producing firm to the firm that manufactures picking machines. The diagram below shows that the two firms before merge, there are a few disadvantages that cause by each other. After merge, the produce rates of each other are increase so they can earn more profit.

The next ways that government use to overcome the market failure is tax and subsidy plan. Tax can increase the private cost of production or consumption and it also can reduce the demand or the output of the goods which are already in shortage. The sources of earning that are needed to pay the tax are pensions, annuities or other periodic payments, royalties, rents or premiums, dividends, interest or discounts, remuneration and profits from an

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employment, profits from the trade, the business and profession. There are five types of the tax that are used in Malaysia, they are company tax, personal income tax, sales tax and service tax. The company tax refers to tax that the company needs to pay, but some of the companies do not need to pay the tax because there are resident companies or the sources are outside our country, such as insurance business, air or sea transport enterprises. About the personal income tax, the people in Malaysia are liable to pay this tax and the tax rate will depend on individuals determined by the duration of stay in Malaysia. The next is sales tax, this tax is added on the import and manufacturing levels. The manufacturers need to be licensed under the Sales Tax Act 1972. But the license will be exempt if the annual sales of the firm cannot more than RM 100,000. Last is the service tax, this tax we always can see at the restaurant or hotels because this tax is added on the certain goods and services, the goods are food or drink.

The diagram at the left hand side shows an indirect tax, an indirect tax will rise the price of the product and it causes a contraction of demand. The government intervenes in the market because they want to change the price signal. The second diagram at the right hand side shows that the government subsidies. Government subsidy to the consumers to cover some of the costs of employing nannies or buying the child care is designed to reduce the relative cost of this and therefore increase the demand.

Next the another way that to overcome the market failure is legal restrictions. Some of the external effects are very far from the market that no market oriented institution or the rule can be used to correct them. A petrol station which is built in the center of housing area may be convenient for the

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nearby residents, but it will cause the value of adjacent residential properties become lower. The cities use the zoning laws to protect their property values and against the adverse effects of business being located in the housing area. The graphically in below is an example that show about the problem and the way to overcome.

Next, there have another example, this diagram show that the gas station are noisy and odorous, beside that they also cause the traffic problems at certain hours every day. These effect are no taxing or to compensate the householder for their lose. So the householder request for help to government. After that, the zoning ordinances are use to prevent the people from opening filling stations in the housing area. The government use the law or the legal restriction to lower the property values and hostile voters.

### Conclusion

Our country, Malaysia is mixed economy. There are many advantage that I already explain about mixed economy if compare to free market and centrally planned economy. After that, I have already explain the price mechanism and the three main function of it when use in economy. The price mechanism is allowed to operate in Malaysia. Next, I also analyze about how the government interfere and overcome the market failure. If the country no have market failure or any government failure, the country will become stronger.