

# Assignment: capitalism and economy assignment



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Thus you are tasked to put together the details of the foreign country and its economic system:- A detailed research paper is required on the following

issues:- Explain how economic systems attempt to allocate resources

effectively Assess the impact of fiscal and monetary policy on business

organizations and their activities Evaluate the impact of competition policy

and other regulatory mechanisms on the activities of a selected organization

Explain how economic systems attempt to allocate resources effectively An

Economic System is an organized way in which a state or nation allocates its resources and apportions goods and services in the national community.

Types of Economic Systems: 1. Socialism 2. Capitalism 3. Mixed Economy

**Socialism** Socialism is an economic system characterized by social ownership of the means of production and co-operative management of the economy. “

Social ownership” may refer to cooperative enterprises, common ownership, state ownership, citizen ownership of equity, or any combination of these. A

socialist economic system consists of a system of production and distribution

organized to directly satisfy economic demands and human needs, so that

goods and services are produced directly for use instead of for private profit

driven by the accumulation of capital.

**Advantages of Socialism** In environments with plentiful resources, socialism

provides all members with their survival needs, creating a stable social

environment. Members that cannot participate economically – due to

disabilities, age, or periods of poor health – can still impart wisdom,

emotional support and continuity of experience to the system. Freedom from

work provides opportunity for some societal members to explore non-

economically-productive pursuits, such as pure science, math and non-

popular arts. Disadvantages of socialism: \* It discourages achievement and working hard. In Socialism, money is equally distributed. So, if you will always make the same money, what is there to force you to work harder? Since there is no culling and no economic advantage to working harder, socialistic systems provide no inherent incentive to participate. This makes socialism internally unstable. \* Due to a lack of incentives, socialistic systems tend not to be competitive, making them externally unstable. Times of plenty, immigrants are drawn to the free resources offered by socialistic systems, while potentially adding nothing economically productive. \* In times of scarcity, resentment of non-economically-productive members of society increases, causing a destabilize effect on the society and economy

**Capitalism** Capitalism is an economic system in which capital assets are privately owned and items are brought to market for profit.

In a capitalist economy, the parties to a transaction determine the prices at which assets, goods, and services are exchanged. Central elements of capitalism include capital accumulation, competitive markets and wage labor. Most of the decisions are taken through the operation of the market mechanism as it is based upon the ideology that assumes that consumer choice will influence market forces to ensure an optimum allocation of resources and hence very little government intervention in business decision making, the only role of the government that the 'invisible hand' of market forces is free to operate via the price mechanism or forces of supply and demand.

The assumptions of a free market system include the following: 1. Firms seek to maximize profits. 2. Consumers seek the greatest benefit for least cost. 3.

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Workers seek to maximize their wage relative to the cost of working. 4.

Individuals are free to make their own decisions, example where to work, what to buy. Firms are free to choose what to produce and who to sell to. 5. If there is an excess of supply then the price of the good will fall. As the price falls the consumers will get more benefit of less cost and thus the demand will rise. Problems with Capitalism or market economy \* Inequality of income: The main disadvantage of capitalistic economy is inequality of income.

Rich become richer due to economic freedom to own property economic development and the law inheritance. Poor go on becoming poorer. Wealth is centered in certain hands. \* Unbalanced growth: Industrials- sists promote only those industries, where margin of profit is more, so basic, essential and service industries are ignored. Industries tend to concentrate in certain industrial pockets. Certain regions are neglected. Village industries are ignored. There are developed and undeveloped regions in the economy \* Here, the profit motive is far greater than altruism. If people are worried about what's in their own pocket, they will avoid helping their fellow human beings because they're concentrating on looking after themselves.

People feel the need to put themselves first because they think no-one will be there to help them if they lose all their money \* The common capitalist mantra that " anyone can be rich if they work hard enough" is a fallacy. There's only so much room at the top. In order to make money, first you have to take it from someone else. This can be done through selling things, taxation or any other means. But this means that the rich cannot exist without the poor. Any way you look at it, there's never going to be equality

under capitalism. \* Class struggle: The society is divided in two classes- the rich and the poor. The richer people exploit the poor workers.

They are paid low wages. Workers demand higher wages. Employers oppose their demand. The conflict between the workers and capitalist goes on.

Strikes and lockouts become the common feature. \* Economic insecurity: Inequality of income, regional imbalances, class struggles make the economy very insecure. There is economic unrest. Strikes and lockouts are the features of the day. The conflicts between the workers and management, and have and have not lead to economic insecurity Mixed Economy Mixed economy is an economic system in which both the state and private sector direct the economy, reflecting characteristics of both market economies and planned economies.

Most mixed economies can be described as market economies with strong regulatory oversight, and many mixed economies feature a variety of government-run enterprises and governmental provision of public goods The basic idea of the mixed economy is that the means of production are mainly under private ownership; that markets remain the dominant form of economic coordination; and that profit-seeking enterprises and the accumulation of capital remain the fundamental driving force behind economic activity Advantages of a Mixed economy \* It mixes the benefits of capitalist nature of private companies and socialist tauter of the government. \* Looks to balance economic growth of the economy and income \* Mixed economy allows individuals to run their business and make profits but contribute towards society. Disadvantages of a Mixed economy \* Goods and services are produced to benefit the society rather than to benefit the

economy. \* Favoritism and bureaucratic nature are prevalent in a mixed economy. Read more: <http://www.Objectifications.Com/definition/economic-system.HTML#ixzz2cbFW6wKf> Assess the impact of fiscal and monetary policy on business organizations and their activities Figure 1. 1 Fiscal Policy Figure 1. 2 | Fiscal Policy involves: a) Taxation and other sources of income b) Government spending c) Borrowing whenever spending exceeds income d) Repaying debt when income exceeds expenditure Fiscal policy is the means by which a government adjusts its levels of spending in order to monitor and influence a nation's economy. It is the use of government revenue collection (taxation) and expenditure (spending) to influence the economy. The two main instruments of fiscal policy is changes in the level and composition of taxation and government spending in various sectors.

These changes can affect the following macroeconomic variables in an economy: Aggregate demand and the level of economic activity; \* The distribution of income; \* The pattern of resource allocation within the government sector and relative to the private sector. A feature of Fiscal policy is that a government must plan what it wants to spend, and so how much it needs to raise in income or by borrowing. It needs to make a plan in order to establish how much taxation there should be, what from the taxes should be taken and from which sectors of the economy the money should come from. This policy refers to the use of the government budget to influence economic activity. Fiscal policy usually involves changes in taxation and spending policies. Lower taxes mean more disposable income for consumers and more cash for businesses to invest in jobs and equipment.

Stimulus-spending programs, which are short-term in nature and often involve infrastructure projects, can also help drive business demand by creating short-term jobs. Increasing income or consumption taxes usually mean less disposable income, which, over time, can decelerate business activity. Monetary Policy Monetary policy involves attempts to influence economic activity through: Interest Rates b) Exchange Rates c) Control of the money supply a) d) Controls over bank lending and credit Figure 1. 3

Monetary policy is the process by which the monetary authority of a country controls the supply of money, often targeting a rate of interest for the purpose of promoting economic growth and stability. The official goals usually include relatively stable prices and low unemployment.

Monetary theory provides insight into how to craft optimal monetary policy. It is referred to as either being expansionary or contraction, where an expansionary policy increases the total supply of money in the economy more rapidly than usual, and contraction policy expands the money supply more slowly than usual or even shrinks it. Expansionary policy is traditionally used to try to combat unemployment in a recession by lowering interest rates in the hope that easy credit will entice businesses into expanding. Contraction policy is intended to slow inflation in order to avoid the resulting distortions and deterioration of asset values.

Monetary Policy Impact Changes in short-term interest rates influence long-term interest rates, such as mortgage rates. Low interest rates mean lower interest expense for businesses ND higher disposable income for consumers. This combination usually means higher business profits. Lower mortgage rates may spur more home-buying activity, which is usually good news for

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the construction industry. Lower rates also mean more refinancing of existing mortgages, which may also enable consumers to consider other purchases. High interest rates can have the opposite impact for businesses: higher interest expenses, lower sales and lower profits. Interest-rate changes can affect stock prices, which can impact consumer spending.

Rate changes may also impact exchange rates higher rates increase the value of the pound relative to other currencies, which lowers import costs and increases export costs for UK businesses; lower rates may have the opposite impact, namely higher import costs and lower export costs.

Evaluate the impact of competition policy and other regulatory mechanisms on the activities of a selected organization | Competition puts businesses under constant pressure to offer the best possible range of goods at the best possible prices, because if they don't, consumers have the choice to buy elsewhere. In a free market, business should be a competitive game with consumers as the beneficiaries. Figure 1. 4 Sometimes companies try to limit competition.

To preserve well-functioning product markets, authorities like the Commission must prevent or correct anti-competitive behavior. To achieve this, the Commission monitors: agreements between companies that restrict competition - cartels or other unfair arrangements in which companies agree to avoid competing with each other and try to set their own rules abuse of a dominant position - where a major player tries to squeeze competitors out of the market mergers (and other formal agreements whereby companies join forces permanently or temporarily) estimate provided they expand markets and benefit consumers efforts to open markets up to competition

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(liberalizing) - in areas such as transport, energy, postal services and telecommunications.

Many of these sectors used to be controlled by state-run monopolies and it is essential to ensure that liberalizing is done in a way that does not give an unfair advantage to these old monopolies. Financial support (state aid) for companies from governments - allowed provided it does not distort fair and effective competition between companies in countries or harm the economy cooperation with national competition authorities in EH countries- to ensure that EH competition law is applied in the same way across the EH Task 2 The consulting firm is looking to put together a series of briefing for the Group, covering a variety of Market related topics.

These include:- \* Explain how market structures determine the pricing and output decisions of business Illustrate the way in which the market forces shape organizational responses using a range of examples \* Judge how the business and cultural environments shape the behavior of a selected organization Prepare the briefing notes with the help of a presentation Explain how market structures determine the pricing and output decisions of business In economics, market structure is the number of firms producing identical products which are homogeneous. The types of market structures include the following: Monopolistic competition, also called competitive market, where there is a large number of firms, each having a small proportion of the market share and slightly differentiated products.

Oligopoly, in which a market is by a small number of firms that together control the majority of the market share. Duopoly, a special case of an

oligopoly with two firms. Monopoly, when there is only one buyer in a market. Oligopoly, a market where many sellers can be present but meet only a few buyers. Monopoly, where there is only one provider of a product or service. Natural monopoly, a monopoly in which economies of scale cause efficiency to increase continuously with the size of the firm. A firm is a natural monopoly if it is able to serve the entire market demand at a lower cost than any combination of two or more smaller, more specialized firms.

Perfect competition, a theoretical market structure that features no barriers to entry, an unlimited number of reducers and consumers, and a perfectly elastic demand curve. The imperfectly competitive structure is quite identical to the realistic market conditions where some monopolistic competitors, monopolists, oligopolies, and duopolistic exist and dominate the market conditions. The elements of Market Structure include the number and size distribution of firms, entry conditions, and the extent of differentiation.

3. 2 Illustrate the way in which the market forces shape organizational responses.