

The effectiveness of a free market system



The market system is markets in which governments' have very limited roles, it can also be known as the free market. Many may question this type of market system though, in that how can such a system without any major policies or government intervention, solve the basic economic problems of, what to produce? How to produce and for whom to produce? Adam Smith, a famous Scottish philosopher economist, argued that individuals pursuing their self interest would be lead as by ' an invisible hand' in doing things that are in the interest of society as a whole. In this market, if an individual desires to start up a business, once established, would in turn benefit society by creating new jobs and opportunities. This benefit would move the society's production possibility frontier onwards and outwards, and would further result in a productively and allocatively efficient business.

The main feature of a free market system is that it enjoys the pricing system which is determined through forces of demand and supply of a product or service without any influences of monopolistic or oligopolistic markets. This is the only time where government intervenes; in ensuring consumers enjoy the benefits of low prices. Competition within the market therefore, allows consumers' to have choices and benefit from low prices and in return leads businesses to expansion or creation of new products or services. Free market businesses also have high profit motives therefore ensuring efficiency and effectiveness within the operational functions of the business.

Based on information gathered it shows where Mexico benefits from a free market economy in the trillion dollar class with regards to investment climate. The country established this state through the mixture of modern and outmoded industry and agriculture, increasingly dominated by the

private sector. Likewise, Tanzania enjoys more than ninety percent of total foreign investments. Some of the country's investors include the United Kingdom, the United States and Germany to name a few. The sectors that attracted these top country investors are tourism, agriculture, fisheries, mining and manufacturing all under a free market system². Altogether, it is appears that the market system is the best mechanism in encouraging a positive investment climate, however, everything that has advantages, must have some sort of negativity affiliated.

In this market, with high levels of rivalry, it has been known to adversely affect employment and poverty levels in China and India in division between the rich and the poor. Even highly developed economies such as the United States and Canada are known to encounter these issues consequent of a total free market economy³. Additionally, in an attempt to maximize profit levels, business owners in a free market may be tempted to reduce competing levels and operate as a monopoly, in essence to non government intervention. Income differences are also likely to be substantial since there are no taxes imposed in reducing it.

In the real world it is not perfect; it would never really have a market where demand is equal to supply – a state of equilibrium. Therefore, in conclusion the free market would never really be a best allocating mechanism for scarce resources.

Word Count: 524words

PART A – QUESTION 2

People disbelieves of a free market economy has highlighted the nature of a command economy. In contrast to a free market system, in command economies the government decides what will be produced? How it will be produced and for whom it would be produced? This further encompasses detailed instructions that are issued to households, firms and workers. There is very little private sector business activity within this economy as oppose to a free market economy. It is a very bureaucratic and time costly task of the government in planning and making decisions of these roles, as such; even though there is maximization in the application of resources, there is no completely planned economy where there is efficiency in the allocation of resources.

With government in command, they produce products and services that are only required to be produced, consequently limiting consumers' choices. Also, there is no room for competition within this economy, therefore any improvements in product designs is highly unlikely. Employees are also poorly motivated knowing that the business is not trying to make profits; therefore they are not benefited in any way from working harder, or even giving their input in showing the enterprise of how to possibly make its business more successful.

On the other hand, with a command economy, there is stability within the economy. Also, this economy plans on a long term basis of perhaps via infrastructure investments, whereas the private sector is only after short term profits. The economy is intended to serve needs collectively rather than individually which allows equal distributions of wealth within its nature

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making no room for any discrimination. Through the high levels of government control in the economy, it does ensure sufficient supply of industrial products be made available at affordable prices for manufacturers' all in the effort of the overall welfare of the economy. All production decisions are based on the governments' assessments of people's needs rather than the consumers' spending patterns. 4A planned economy, in theory does not suffer from any business cycles, that is, and is no booms or recessions: it does not experience crisis of overproduction.

According to the CIA Factbook, it estimated that for a time the Soviet Union was the world's second largest economy and was that of a command, the economy eventually collapsed though, resulting in the various republics gaining its independence, for e. g., Kazakhstan transitioning into a free economy. This country now reaps the benefits of a friendly foreign investment climate. The economy has been healthily operating since the transition. China, before 1978 and India before, 1991 were also important command economies. Presently, command economies are relatively rare however it does still exist in certain countries such as in Cuba and Iran.

The student believes that there is really no room for investment climates within a command economy, especially since potential investors evaluates and investigates conditions for private sector investment. This is due to all the disadvantages discussed earlier, for e. g., the basic salary wages would in fact reduce the demand for labor which affects an investor's decision in thinking of the long run outcome.

Word Count: 517 words

PART A – QUESTION 3

As a free market allows practices of self interest without any significant restrictions, and a command economy allows minute capacity of individual economic freedom since most decisions are centrally taken by the government, the student would now discuss a mixed economy as a result to these market failures.

In a mixed economy as in Trinidad and Tobago, the government and the private sector act together in solving the economic issues presented. The government controls a significant allocation of output through taxations, transfer payments and the provision of services such as the defense force and police force. Government also regulates the extent to which an individual may pursue their own self interest.

In this market type, the government provides essential services for all in society, no discrimination; the private sector is encouraged to operate successfully in earning profits from enterprise. Competition within the market will result in innovate products produced at reasonable prices to consumers hence an overall satisfaction to consumers in having the benefit of choice of a product. In mixed economies, government rule out all inefficient business behavior, for e. g., dangerous products or polluted factories such as the International Aluminum Smelting Industry, which results in very detrimental health impacts to society.

Some disbenefits though are that taxes may be too high to pay for public goods, which can result in a decrease in motivation to work hard or make profits. The public sector may also not be as productive and efficient as

oppose to the private sector. Government also needs to be careful when setting controls over business operations, too much control can add to cost and thereby discouraging enterprise.

Trinidad and Tobago is known to have an open investment climate meaning that almost all investment barriers since 1992 to be exact have been abolished. Based on data collected, 5due to the nation's strategic location, natural resources, excellent infrastructure and pro-investment business climate, Trinidad and Tobago have in the past acquired the highest foreign direct investment (FDI) per capita in Latin America and the Caribbean. Increased levels of export returns have stirred both the public and private sectors' outflow and inflow. Some of the sectors in which potential investors may consider in T & T is the Tourism industry, Music and Entertainment, Merchant Marine and, Energy and Downstream Industry to name a few.

Trinidad and Tobago's recent investment climate has not been progressing lately though, especially with the recent downfall in the economy, it is quite a challenging investment climate presently., 6There is a need to attract major players in the energy sector that is, especially since the entrants of new competitors such as Brazil, Angola, Australia and off-shore West Africa, who all possess the ability to haul together the investment dollars the technical expertise from major multi-national companies. Competition is indeed though in this sector, as a result the energy chamber has decided to center the forthcoming 2011 T & T Energy Conference on investment in the energy sector. The conference will be to discuss the various aspects in which investment can be influenced in the region as well as means in enhancing competitiveness.

Another major sector in which investment opportunities could use a boost is that of the Defense and Security sector. Presently, Trinidad and Tobago is undergoing significant increased levels of crime. Though a risk factor, relevant investors can however use this as an opportunity to grow and develop their businesses market shares.

Trinidad and Tobago's actual investment policies as at 2009 – 20137, states where these policies are proposed in providing principles and guidelines for national and foreign investments, some of the marketing strategies include:

Identification and development of investment projects.

Facilitation of joint ventures.

Improving access to financing and communication of investment opportunities.

Provision of training to entrepreneurs.

Hosting of trade fairs and trade, and trade and investment conferences, (as mentioned earlier)

Provision of opportunities linked to firms that are already established, for e. g., the oil industry.

These policies are expected to improve the investment climate of the country. In so doing, it provides opportunities for people to better themselves; therefore they should take advantage in the overall view of a bullish climate.

Word Count: 705 words.

FOOTNOTES

1 <http://www.islandandresort.com>

2 http://www.aabf.org/tanzania_inv_guide.htm

3 <http://www.wiki.answers.com>

4 <http://www.en.wikipedia.org>

5 <http://www.bdc.co.tt/exportdirectory/profiles.php?>

6 <http://www.ttenergyconference.org>

7 <http://www.investtnt.com>