

The different characteristic of mixed economy economics essay



What is the economic system? Economic system is the branch of economics, which studies the method and the institutions by which societies determine the direction, ownership and allocation of economic resources. An economic system of a society is the unit of analysis. Among the contemporary systems at different ends of the organizational spectrum are the socialist systems, that is centrally-planned or command economies, and another one is the capitalist systems, it also called free market economy. These are in which most production occurs in respectively state-run and private enterprises. In between of the free market and centrally planned or command economy are mixed economies. Next, I would like to explain about the definition of free market economy, centrally planned economy and mixed market. Free market is the decisions left to the market to forces of supply and demand, and to the price mechanism. Centrally planned or command economy is the decisions and choices about resource allocation are made by the government. While, mixed economy is based on the free enterprise principle, there is some form of direct intervention and control by the government.

Next, I want to explain about the different characteristic of mixed economy. For the resource allocation, the government are decides on resource allocation of scarce commodities. Wealth ownership, there is a mixture of government and private ownership. Next is the solution of economic problems, the government does intervene, especially to implement development policies. For the economic efficiency, it depends on both government and private the sector efficiency. While the consumers have some say, their voices are not strong, its characteristic is consumer freedom. For the distribution of income, the income of workers in some sectors is

managed by the government. Then, the provision of services is while some services are privatized, the government provides for basic services. Beside our country Malaysia, the other country such as Thailand, India and Singapore are also the mixed economy.

Next, I want to explain about the price mechanism. What is price mechanism? Price mechanism is a system in which decisions about production quantities and selling prices are determined by the buyers and sellers in a market. It describes the price of the goods and services based on the demand and supply. The price mechanism also called market mechanism. In price mechanism, there can be divided into three important functions. The first function is the signaling function. Its mean that the price of the product will be adjust because of the need to prove where the resources that we need, and where are not we need. The second function is the transmission of preferences. Adopt the signaling function; the consumers are able to adopt their expression of preferences to send the important information to their producers about the changing nature of our needs and wants. The third function is the rationing function. It's mean that the prices is served to ration scarce resources when the demand in a market is outstrips supply.

After that, lets us understand about the market failure. What is market failure? Market failure is a situation where the resources cannot be efficiently allocate due to the breakdown of price mechanism. These are caused by the factors such as externalities, public goods, monopoly power, inequality etc.

What cause the market failure? Market failure can occur by the three main reasons. The first reason is the abuse of market power, these can occur <https://assignbuster.com/the-different-characteristic-of-mixed-economy-economics-essay/>

when a single buyer or seller can exert significant influence over prices or output. The second reason is the monopoly is natural if one firm. It can produce a given set of goods or services at a lower cost than any other number of firms. A natural monopoly results when the costs are decreasing in the scale of a firm. In natural monopoly situations, the monopolists will raise their costs and tariffs. It is because the lacks incentives for efficiency or is interested in the maximization of profit. The last reason is externalities. That is when the market does not take into account of the impact of an economic activity on outsiders. For an example, the market maybe will ignore the costs imposed on outsiders when a firm polluting the environment.

There are many reasons that cause the market failure. How does the government can do to identify the market failure? There have many ways that the government can use to identify the market failure. The first ways is the government can make a transfer payment, such as unemployment benefits and social security to the individuals. The transfer payments are the payments for which no current direct economic service is provided in return. For an example, a fireman's salary is not a transfer payment but a social security cheque is a transfer payment. Those are the unemployment benefits and interest payments on government borrowing. The government spending is the sum of government purchase of goods and services and the transfer payments. The second ways is the government can create a rules, laws and regulations. The government at all levels regulates economic behavior, setting detailed rules for the operation of business. The regulations include planning permission on how the land can be used and where business can

locate. It also includes the health and safety regulations and attempts to prevent some types of the business, such as the sale of heroin. The next way is impose taxes. It means that the governments pay for the goods they buy and for the transfer payments they make by levying taxes or by borrowing. The taxes are raised at the national level, such as income tax. It is usually supplemented by the local taxes assessed on the household size or property values. Besides that, another way is buying and sell goods and services. It means that the government buy and produce many goods and services, such as roads, education etc, which they provide to firms and households. These all is the ways that the government can interfere.

In this question, I already explain about economic system, the characteristic of the mixed economy, market failure and how the government interfere the market failure. I hope that our country don't have any problem about the market failure.