

The difference between market and command economy



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An economy may be defined as the state of a country or region in terms of the production and consumption of goods and services, and the supply of money.

A market economy (also called a free market economy, free enterprise economy) is an economic system in which the production and distribution of goods and services takes place through the mechanism of free markets guided by a free price system.

On the other hand, a command economy (also known as planned economy) is an economic system in which the state or government controls the factors of production and makes all decisions about their use and about the distribution of income. There is another type of economy, known as Mixed economy. Mixed Economy is combination of free market and command economy. However, this essay will analyze the main key difference between command and free market.

A command system is one in which decision making is centralized. In a command economy, the government controls the factors of production and makes all decisions about their use and about the consumption of output. The central planning unit takes the inputs of the economy and directs them into outputs in a socially desirable manner. This requires a careful balancing between output goals and available resources. Resources are allocated through a planning process. At its most extreme, this means that the state will direct labour into jobs as well as directing consumers what to consume, although it is more likely that they will direct producers what to produce, thus determining the choice of goods available to consumers. What is more,

price is controlled by government, they decide minimum and maximum price of goods according to their importance. For instance, on the one hand, government sets the minimum price for wheat to encourage farmers to produce more. On the other hand, government sets the maximum price on rents so everyone can easily afford that. In a command economy, the state plans the allocation of resources between current consumption and investment for future, the output of each industry and firm, methods of production and the resources allocated to each industry and firm. Moreover, in a command economy, all factors of production apart from labour are owned by the state. The classic examples of command economies were the USSR under Stalin and the People's Republic of China during Mao's Great Leap Forward.

In contrast, in a free market economy, all economic decisions are taken by individuals and firms, which are assumed to act in their own self-interest. Firms decide what goods shall we produce? They can produce whatever they want to acquire their maximum profit. They can produce necessity goods such as foods, clothes, tables and chairs. Moreover, they decide the prices of goods as guided by the laws of demand and supply. For instance, one firm produces Flat TVs, if Flat TVs are highly demanded, Prices increase dramatically. However, demand of black and white TVs decrease, consequently prices decrease. In addition, in a free market economy, the output is determined by the quantity demand, the techniques of production by the firms themselves keeping in mind efficiency and productivity and land is free to buy for everyone (firms, business invertors and etc). The free market idea of land ownership can have some good and some disastrous

effects. On the one hand, land ownership is good because this gives the opportunity to business person to plan for long term with out having any problems such as, rent or charges on the land will increase after few years. On the other hand, land prices will increase dramatically which will affect the whole country. For instance, residential land values in Japan grew seven times faster than wages between 1950 and 1988 . This wrecked Japan's economy and it has taken 16 years to recover. The common examples of free market are USA, China and Canada.

To sum up, world has scarce resources. The economic systems of countries are designed to allocate those resources, through a production system, to provide output for their citizens. The fundamental questions that these systems answer are: what to produce, how and for whom? Market economies leave the answers to these questions to the determination of the forces of supply and demand while command economies use a central planning agency to direct the activities of the economy. Both have their own strengths and weaknesses. But in really world, all economies are actually mixed economies, incorporating some facts of both market and command economies. The relative importance of the particular economic system in the country is the determinant of the type of economic system that it is generally considered to be.