The economic systems of malaysia

Malaysia, a mixed economy attempts to combine the advantages of Free Enterprise System and the Central Command System. The price mechanism is allowed to operate but in some cases the price mechanism fails or works against public interest. Identify the ways by which the State can intervene to correct the defects.

INTRODUCTION

Economic system can be defined as a system which indeed organize and structures the resources that are available in a country or state. Economic systems are the branch of economics that studies the methods and institution by which societies determine the ownerships, direction, and allocation of economic resource. All societies faced with the problem of scarcity. There are 3 types of economic system which are known as Free Enterprise System, Centrally Planned or Command System and Mixed Economy System. Briefly each economic system can be described through the intervention of government which differs in each of the respective economic system.

In general, the government intervention and degree of control in each system differs which also includes how they tackle economic issues. Free Enterprise System has very low level of government intervention where all economic decisions are taken by individual households and firms with no government intervention. In a free market, individuals are free to make their own economic decisions. For instant, consumers are free to decide what to buy with their incomes and to make demand decisions. This economy can respond quickly to changing demand and supply conditions. However, markets do not achieve maximum efficiency in the allocation of scarce resources, and government feel it is necessary to intervene to rectify this and other problems of the free market such as, competition between firms, power and property are unequally distributed, the practices of some firms are socially undesirable, leads to macroeconomics instability, and finally there is a ethical objection in free market.

Centrally Planned or Command System is a fully government controlled based economy system where the price mechanism is fully in control by the government which can be either the state government or parliament and is usually associated with a socialist or communist economic system, where land and capital are owned by the government. Even though these economy distribute goods and services directly by a system of rationing or it may decide the distribution of money incomes and allow individuals to decide how to spend them.

Mixed Economy System where the price mechanism rights are hold by both the public and government, moreover decisions are by the government which will be based on the public’s demand. Mixed economy is where the degree of government intervention and the public are at balance

ECONOMIC SYSTEMS OF MALAYSIA

As we all know Malaysia is a mixed economy system. In this economy, the degree of government intervention and the public are at balance. It is based on the free enterprise principle there is some other form of direct intervention and control by the government. It can be also defined as decisions are made partly by the government and partly through the market. In a mixed economy system, most economic decisions are made by the market and several economic decisions are in hands of the government which are mostly due to scarcity for an example decisions on petroleum prices, oil price, sugar price and others. This is as such as the market on these scarce goods and services are very much protected and government intervention begins as they are in responsibility to overcome scarcity. Other government intervention in Malaysia economic system are in banking and transaction based areas where the country’s bank known as BANK NEGARA is to be known as the main head banks for all commercial banks in Malaysia and each and every commercial banks records need to be transmitted in the Bank Negara.

Despite, government of Malaysia also intervene in new market establishment where the government endorses a Barrier of Entry for the new market ownerships which is very much in need to be required to be able to establish any business or market in Malaysia. Barriers of Entry in Malaysia includes of imposing taxes on goods, the control of price, prohibiting from selling certain goods or services and many more. These Restrictions by the government are to ensure to retain a balanced and well growing economy. Although it’s a mixed economy system, and public are partly in responsible to make economic decisions, government intervention are very high for the following factors involved in economical growth of a country.

2. 3 BARRIERS OF ENTRY

Barriers of entry can be described as a government implemented rules and regulations which in need to be fulfilled in order to enter a market or establish a business in the respective government country. Barriers of entry in Malaysia are very idealistic where the government has set the terms according to the life style and standard of living in Malaysia. Any New market or businesses that are in motive to establish or join a market in Malaysia are in need to conform to the requirement of the barriers of entry. In short, barriers of entry can be defined as obstacle to market and business which disallow certain businesses or markets which does not conform to the stated rules and regulations. Barriers of entry in Malaysia includes as stated below:

2. 3. 1 PROHIBITING SALE OF CERTAIN GOODS AND SERVICES : THE CASE OF ILLEGAL DRUGS

As we all know it is illegal to sell certain goods and services, and yet many of these goods have flourishing markets. Billions of money is spend of change hands worldwide in the illegal drugs, arms and pornography trades. Cocaine is illegal, however other drugs such as tobacco and alcohol are charged high tax charges to reduce the consumption. The reason given by governments for keeping drugs illegal is that to send out important messages to society. Taxing something, by contrast implies that the product is acceptable. Also when taxes were to be set at a very high rate is enough to reduce legal consumption to a politically acceptable level.

2. 3. 2 MONOPOLY MARKET

In Malaysia, outside traders are not welcomed to join monopoly market structured economy as these are in governmental control as only one firm is allowed to produce such goods which cannot be subsidized as such firms entry is impossible. Examples of markets that are monopoly in Malaysia are Petroleum market (PETRONAS), electric supply (TNB), water supple (SYABAS) and etc.

2. 4 IMPOSE OF TAXES ON GOODS OR SERVICES

The government controls over the price of goods and inputs by taxing or subsidizing goods or services or even by directly controlling the price of the market. Governments such interference are to gain relative income from income taxes to be able to give concern to the welfare payments and also social services. As government imposes taxes on goods and services, these indirect taxes as they called includes taxes for goods like cigarettes, petrol and alcoholic drinks. Indirect tax is a tax on the expenditure on goods. These taxes are not paid directly by the consumer, but indirectly via the sellers of the good. Here the government also controls most commercial banks in term of loan interest rates which are monitored by the Malaysian Bank known to be Bank Negara. Despite, the government has a direct control over the foreign exchange rate.

2. 5 THE CONTROL OF PRICES

In Malaysia, government intervention also exists in control of prices on goods and services. The government would prefer to retain the price mechanism either above or below the equilibrium price although there will be no shortage or surplus at the equilibrium price. If the government sets a minimum price above the equilibrium, a price floor, there will be a surplus. Price will not be allowed to fall to eliminate this surplus. However, on the other hand, if the government sets a maximum price below the equilibrium, a price ceiling, there will be a shortage. Price will not be allowed to rise to eliminate this shortage.

2. 5. 1 SETTING A MINIMUM (HIGH) PRICE

Government sets minimum prices to prevent them from falling below a certain level. This is because the government wants to protect producers' incomes. In the factor of wages (the prices of labor), minimum wage legislation can be used to prevent workers wage rates from falling below a certain level.

2. 5. 2 SEETING A MAXIMUM (LOW) PRICES

This is to prevent them from rising above a certain level. In war time, inflation, crisis or times of famine, the government may set maximum prices for basic goods so that poor people cannot afford to buy them. These resulting shortages however create further problems.

2. 6 PROVIDING GOVERNMENT OWNED SERVICES FOR FREE OR LOW PRICE

In every country the government do subsidize certain goods and services which are high in price and not affordable by the poor community, this is to avoid the concept of rich becoming richer and poor becoming poorer not being able to live a standard live with certain needed daily basic things. Governmental subsidiaries are normally in formation of either product or service. Like all other countries, Malaysia as well have well understood the nation difficulties and subsidize certain goods and services which are high in price and are produced mainly for rich people. Example of subsidized goods and services in Malaysia are like petrol, NGV gas, sugar and many more.

Despite subsidiaries, Malaysia also has government intervention through their government hospitality facilities where public are treated for their medical issues at a very low price which begin with just RM1. 00 for registrations. This facility by government has an absolute 0% profit to the firm which is entirely supported by the taxes income which the government earns through taxation.

In other hand, government intervention also exist in Malaysia when it comes to the issue of pollution, environment and global warming where the government sets rules and regulation to be implemented by all organizations and public to ensure of a safe living environment globally and to contribute to keep the mother earth safe. Here, government intervene with implying rules of reducing electricity wastage, water wastage and also reduce the use of plastic bags in shopping complex. The implementations of reducing the use of plastic bags in shopping complex throughout Malaysia have given a real good feedback where every Saturdays are to be a day without plastic bags in any shopping complex.

2. 7 PRICE MECHANISM

Price mechanism is a market based mechanism which refers to a wide variety ways of to merge up buyers and sellers through price. Buyers and seller use price as a signals to communicate their wants, and then exchange money for goods or resources, or vice versa. It is a way of transmit the consumers and the firms each other through their effect on price mechanism. The prices that results are the prices that firms and consumers have to accept.

Surplus Supply

Price Market equilibrium point

Shortage Demand

Quantity

Price mechanism works as follows. Prices will respond to shortages and surpluses. Market equilibrium point occurs when the quantity of demand and supply are equal and intersect each other. Equilibrium price is a price where the quantity demanded equals the quantity supplied. It is the price where there is no shortage or surplus will occurs. Surplus is where the quantity of supplied over the quantity demanded when the price is above the equilibrium. Shortage occurs when the quantity demanded is over the quantity supplied when the price is below the equilibrium. Here, we can define supply as the willingness of the seller to sell a good or services. In other can be said as the quantity of any good or services offered for sale at a given price over a period of time in a given market. At the equilibrium price, there will be no shortage or surplus. The equilibrium price however may not be the most desirable price. The government, therefore, may prefer to keep prices above or below the equilibrium price. If the government sets a minimum price above the equilibrium, a price floor, there will be a surplus. Price will not be allowed to fall to eliminate this surplus. However, on the other hand, if the government sets a maximum price below the equilibrium, a price ceiling, there will be a shortage. Price will not be allowed to rise to eliminate this shortage. First of all, the government intervention in the market can create positive and negative results. Since Malaysia is a mixed economy so it has a little degree of intervention of government. The government does not have direct intervention in everything, but it may be indirectly.

2. 8 CONCLUSION

As conclusion, Malaysia practices mixed economy system which means the degree of government intervention and the public are at balance in market decision making. This economy system is mostly based on free enterprise principle but it differs as there is some form of direct intervention and indirect government intervention. The degree of government intervention on decision making in market is depending on the scarcity of the resources used in the specific market for example the government control in petroleum market in Malaysia is very high compare with the automobile market. However, the writer concludes that the price determination in Malaysia is depending on the degree of the scarcity of resources in the market and government intervention is mostly in the issue of taxation and scarce resources. Overall, hereby the government does not have direct intervention in everything but it may have indirectly through taxation.