3 Economic systems

Market system
Planned system
Mixed system

Market system

Market economy is an economy where resources are allocated by the price mechanism, the consumers determines what is produced.
Example:
United States

Advantages of market system

Price determination by supply and demand
Choice is available in the market
There is efficiency
Buyers are free to buy any product
Low prices due to efficiency

Disadvantages of market system

The profitable goods and services are produced, people do not get the products they need (education, health).
Mistreatment of workers
Creates unemployment
Huge gap between rich and poor
Big firms control the whole market

Planned system

Planned system is an economic system where resources are allocated by the, the state determines what is going to be produced.
Example:
USSR

Advantages of Planned system

Wasteful competition is avoided
Goods and services like health and education are provided
Even distribution of income

Disadvantages of Planned system

Lack of efficiency
No choice for the consumers

Mixed system

An economy where both private sector and government operate and play a key role
It is also referred to as an economy which is the sum of the advantages of market and planned system

Advantages of mixed system

Choice for consumers
Government providing essential services
Example: Postal services, army, street lighting

Disadvantages of mixed system

It consists of the disadvantages of private sector and government
Unnecessary government interference
Government monopolies'
Private sector monopoly
Wasteful resources

Principle of equilibrium price

The equilibrium price is the price where demand and supply are equal.
Equilibrium is defined to the price-quantity pair where the quantity demanded is equal to the quantity supplied, represented by the intersection of the demand and supply curves

Causes of changes in demand

Change in price of a compliment good
Change in price for substitutes
Change in income, for normal goods, a change will cause an increase in demand
Change in the number of consumers
Change in information/technology

Causes of changes in supply

Change in input costs (labor/natural resources/etc.)
Change in technology
Change in number of supplies
Change in taxation policies
Disasters and calamities

Price elasticity of demand

It is a measure in economics to show the responsiveness of the quantity demanded of a good or service to a change in its price.

$$\text{PED} = \frac{\text{\% change in quantity demanded}}{\text{\% change in price}}$$

Price elasticity of supply

It is a measure in economics to show the responsiveness of the quantity supplied of a good or service to a change in its price.

$$\text{PED} = \frac{\text{\% change in quantity demanded}}{\text{\% change in price}}$$

Usefulness of price elasticity

The government can use price elasticity to decide on which product, tax can be levied.

If government puts tax on a product with inelastic demand the revenue will increase as the consumer will be prepared to but the product as higher price (cigarettes)

Concept of market failure

Market failure is when the market forces do not perform the way they expected to

Market forces fail
Inefficiency of market
The government intervenes after the market failure
Eg. Externalities

Reasons for market failure

Affected parties ignored
Non-profitable goods not produced
Improper allocation of resources
Social injustice

Merits of market system

Consumer is sovereign
Efficiency
Specialization will promote increased production

Private benefit and social benefit

Private cost: the cost which the consumer has to bear
Private benefit: the benefit which the consumer enjoys
External cost: the cost which the general public bears without consuming
External benefit: the benefit which the general public enjoys without consuming

Private costs and social costs

Private costs + external costs = social costs
Private benefits + external benefits = social benefits

Conserving resources versus using resources

Factors
The need for money
The standard of living
Opportunity to earn money because of global demand of products
Comparative advantage

Public expenditure versus Private expenditure

Public expenditure
The government does not exploit resources and maintains sustainability
Private expenditure
The private companies exploit the resources to earn maximum profit