

ECONOMY – ITS MEANING AND TYPES

The purpose of every economy is to satisfy human wants by using limited or scarce resources available and known to a society. These wants can be satisfied by production and consumption of goods and services. For production, the factors of production are engaged in some economic activities. These economic activities bring income to the economic agents that can either be consumed or saved and invested. On account of these gainful economic activities and accumulated earnings, some countries grow fast while others cannot attain such high growth rate. As a result some economies attain the status of developed economies while others remain underdeveloped or developing economies. They are also known as rich and poor economies. We can look at economies on the basis of ownership of resources. The resources available may be in private ownership or the collective ownership. Thus there are different ways to look at the economy and its level of development.

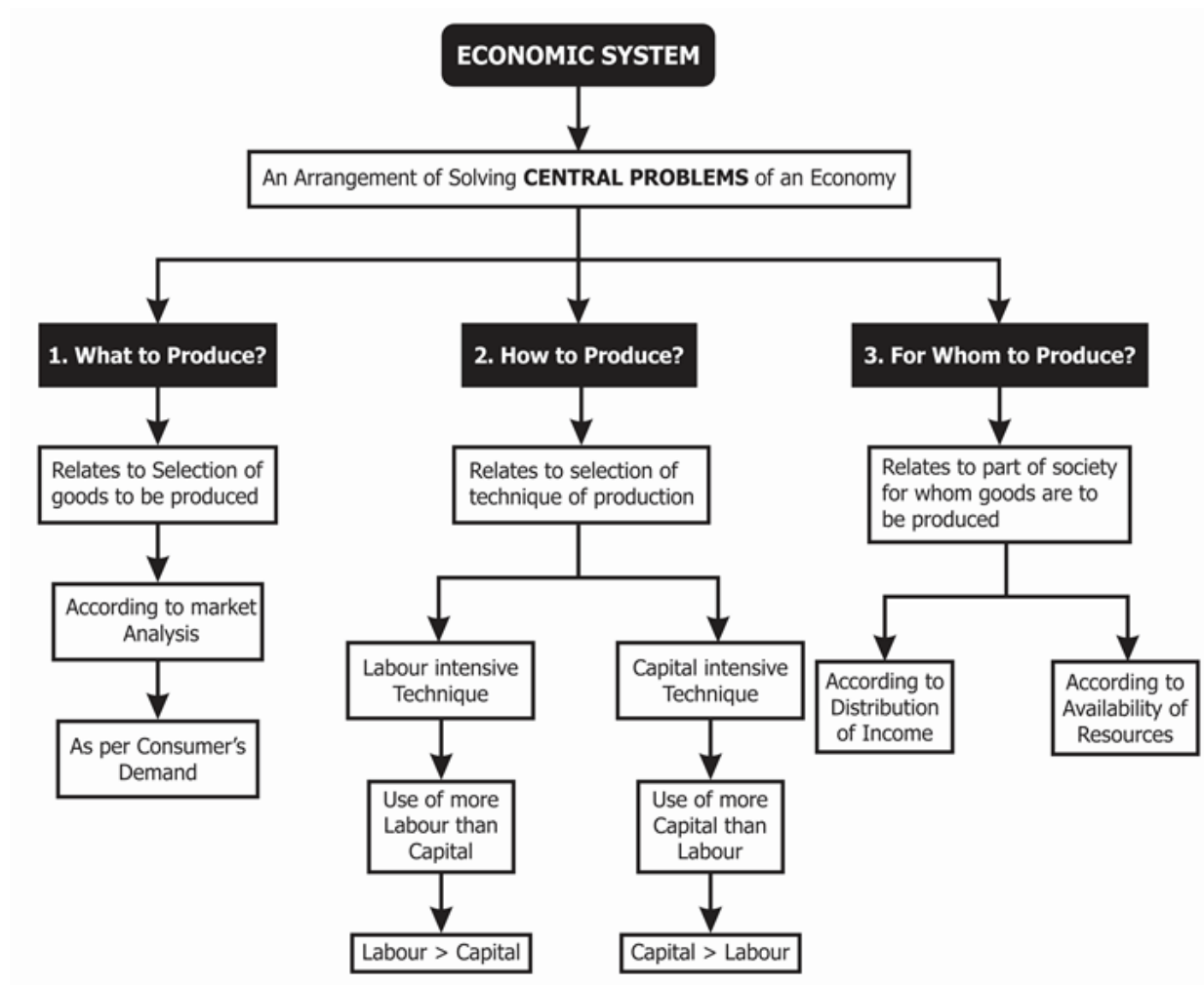
MEANING OF AN ECONOMY

An economy is a man-made organization for the satisfaction of human wants. According to A.J. Brown, “An economy is a system by which people get living”. The way man attempts to get a living differs in major respects from time to time and from place to place. In primitive times ‘get a living’ was simple but with growth of civilization it has become much more complex. Here it is important to note that the way person earns his/her living must be legal and fair. Unfair and illegal means such as robbery, smuggling may earn income for oneself but should not be taken into consideration as gainful economic activity or a system of ‘get a living’. It will therefore be appropriate to call that economy is a framework where all economic activities are carried out.

Some of the salient features of an economy are as follows:

1. Economic institutions are man made. Thus an economy is what we make it.
2. Economic institutions can be created, destroyed, replaced or changed. For example the capitalism was replaced by communism in 1917 in USSR and the communism was destroyed in 1989 through a series of economic reforms by former USSR. In India after independence in 1947 through economic and social reforms we abolished Zamindari system and introduced many land reform.

3. Levels of economic activities keep on changing.
4. Producers and consumers are the same persons. Thus they have a dual role. As producers they work and produce certain goods and services and consume the same as consumers.
5. Production, consumption and investment are the vital processes of an economy.
6. In modern complex economies we use money as a medium, of exchange.
7. Now-a-days the government intervention in the economy is considered undesirable and the preference for free functioning of prices and market forces is increasing in all types of economic system.



Meaning of Economic System

An economic system is a mechanism with the help of which the government plans and allocates accessible services, resources, and commodities across the country. Economic systems manage elements of production, combining wealth, labour, physical resources, and business people. An economic system incorporates many companies, agencies, objects, models, and deciding procedures

Types of Economic Systems

1. **Capitalist economy:** In a capitalist system, the products manufactured are divided among people, not according to what they want but on the basis of purchasing power, which is the ability to buy products and services. This means an individual needs to have the money with him to buy the goods and services. The low-cost housing for the underprivileged is much required but will not include demand in the market because the needy do not have the buying power to back the demand. Therefore, the commodities will not be manufactured and provided as per market forces.
2. **Socialist economy:** This economy system acknowledges the three inquiries in a different way. In a socialist society, the government determines what products are to be manufactured in accordance with the requirements of the society. It is believed that the government understands what is appropriate for the citizens of the country. Therefore, the passions of individual buyers are not given much attention. The government concludes how products are to be created and how the product should be disposed of. In principle, sharing under socialism is assumed to be based on what an individual needs and not what they can buy. A socialist system does not have a separate estate because everything is controlled by the government.
3. **Mixed economy:** Mixed systems have characteristics of both the command and the market economic system. For this purpose, the mixed economic systems are also known as dual economic systems. However, there is no sincere method to determine a mixed system. Sometimes, the word represents a market system beneath the strict administrative control in certain sections of the economy.

Differences between Capitalist, Socialist, and Mixed

Parameters	Capitalist economy	Socialist economy	Mixed economy
Ownership of property	Private ownership	Public ownership	Both public and private ownerships
Price determination	Prices are determined by the market forces of demand and supply.	Prices are determined by the central planning authority.	Prices are determined by the central planning authority, and demand and supply.
Motive of production	Profit motive	Social welfare	Profit motive in the private sector and welfare motive in the public sector
Role of government	No role	Complete role	Full role in the public sector and limited role in the private sector
Competition	Exists	No competition	Exists only in the private sector
Distribution of income	Very unequal	Quite equal	Considerable inequalities exist

Economic Sector:

The economic sector is divided into three economic sectors. They are as follows:

- **Primary sector:** It is that sector which relies on the environment for any production or manufacturing. A few examples of the primary sector are mining, farming, agriculture, fishing, etc.
- **Secondary sector:** In this sector, the raw material is transferred to a valuable product. A few examples are construction industries and manufacturing of steel, etc.
- **Tertiary sector:** It is also known as service sector, and it includes production and exchange of services. A few examples are banking, insurance, transportation, communication, etc.

References:

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Samuelson, P. Anthony., Samuelson, W. (1980). *Economics*. 11th ed. / New York: McGraw-Hill. p