UNIT 1 INTRODUCTION

Introduction to economic system- Concept and Measures of Development and Underdevelopment - Natural resources - Human Development - population: size, growth rates - rural & urban migration, Human development Index- Composition of national income.

Introduction To Economic System

An **economic system** is a means by which societies or governments organize and distribute available resources, services, and goods across a geographic region or country. Economic systems regulate the factors of production, including land, capital, labor, and physical resources. An economic system encompasses many institutions, agencies, entities, decision-making processes, and patterns of consumption that comprise the economic structure of a given community.

Types Of Economic System

There are many types of economies around the world. Each has its own distinguishing characteristics, although they all share some basic features.

- Traditional economic system
- Capitalist economic system
- Socialist economic system
- Mixed economic system

Traditional economic system

The traditional economic system is based on goods, services, and work, all of which follow certain established trends. It relies a lot on people, and there is very little division of labor or specialization

Some parts of the world still function with a traditional economic system.

It is commonly found in rural settings in second and third world nations, where economic activities are predominantly farming or other traditional income-generating activities. There are usually very few resources to share in communities with traditional economic systems. Either few resources occur naturally in the region or access to them is restricted in some way. Thus, the traditional system, unlike the other three, lacks the potential to generate a surplus. Capitalist Economic System. It is an **economic system** in which the means of production and distribution are privately or corporately owned. Operations are funded by profits and not controlled by a state government.

Features of a capitalist economic system

- Economic freedom. ...
- Consumer **sovereignty**. ...
- Limited **government**. ...
- Finance sector. ...
- **Profit** motive is seen as important for enabling an efficient distribution of resources and encouraging innovation and responsive markets.
- Market forces. ...
- Flexible labour markets – easy to hire and fire workers.
- Free trade.

Advantages of Capitalist economic system

- Efficient Allocation of Resources.
- Efficient Production.
- Dynamic Efficiency.
- Financial Incentives.
- Creative destruction.
- Economic freedom helps political freedom.
- Mechanism for overcoming discrimination and bringing people together.

Disadvantages of Capitalist economic System

- Monopoly power. Private ownership of capital enables firms to gain monopoly power in product and labour markets
- Monopsony power
- Social benefit ignored
- Inherited wealth and wealth inequality
- Inequality creates social division
- Diminishing marginal utility of wealth
- Boom and bust cycles.

Socialist Economic System

A **socialist economy** is a system of production where goods and services are produced directly for use, in contrast to a capitalist economic system, where goods and services are produced to generate profit (and therefore indirectly for use). "Production under socialism would be directly and solely for use.

<u>Advantages of Socialist Economy</u>

- Reduction of relative poverty
- Free health care
- Diminishing marginal utility of income
- A more equal society is more cohesive
- **Socialist** values encourage selflessness rather than selfishness.
- **Benefits** of public ownership
- Environment
- Reduced hidden taxes

Disadvantages of Socialist Economy

(i) Loss of Consumer Sovereignty:

(ii) Less Democratic:

(iii) No Automatic Functioning:

(iv) Evils of Bureaucracy

(v) Rigid Economy:

(vi) Burden on Government:

(vii) Expenditure on Planning:

Mixed Economic System

A **mixed** economic system is a system that combines aspects of both capitalism and socialism. A **mixed** economic system protects private property and allows a level of economic freedom in the use of capital, but also allows for governments to interfere in economic activities in order to achieve social aims.

Advantages of the Mixed Economy

- A mixed economy distributes goods and services to where they need to be
- Supply and demand get measured through pricing instead of regulation
- A mixed economy improves production **efficiency**

- Mixed economies promote **control** equality.

Disadvantages of Mixed Economy

- There is more emphasis on profit at the expense of the welfare of the citizens.
- There is usually high level of corruption and mismanagement.
- Wealth is not equitably distributed as there is a gap between the rich and the poor.
- Efficiency hardly occurs in this type of **economy** because of involvement of the state

CHARACTERISTICS OF DEVELOPED AND UNDER DEVELOPING ECONOMY

(A). Characteristics of developed economy

The total major countries of the world are 182 out of which only 34 are developed and remaining 148 are under developed. Developing Country (DC) is a nation which, compare to developed nations, lacks industrialization, infrastructure, developed agriculture developed natural resources, and suffers from a low per capita income as a result.

Developed Country: A group of industrialized nations including Australia, Austria, Canada, France, Germany, Italy, Japan, UK and USA. In some contexts such countries are collectively called the North.

According to Kofi Annan, former Secretary General of the UN:"A developed country is one that allows all its citizens to enjoy a free and healthy life in a safe environment."

(B). Characteristics of under developing (developing) economy

Developing countries and developed countries are differentiating on the bases of self-esteem, freedom of choice and influence of externals. A country where the average income of the people is much lower than that of developed countries, the economy depends upon a few export crops and where farming is conducted by primary methods is called developing country. Rapid population growth is causing the shortage of food in many developing countries.

Developing Country: Developing countries are also called under-developed nations (UDN) or the South. Most of them are in Africa, Asia and Latin America.

According to **United Nations Experts:** "A developing country is that in which per capita income is low when compared to the per capita incomes of USA, Canada, Australia and Western Europe."

According to **Prof. R. Nurkse**: "Under developed countries are those which when compared with the advanced countries, are under-equipped with capital in relation to their population and natural resources.”

According to **Michal P. Tadaro**: “The under developed country, is that which has low levels of living (absolute poverty, poor health, poor education and other social services), low self- esteem (low respect, honour, dignity) and limited freedom (freedom from external influence and dominance, freedom of choice etc.).”

CHARACTERISTICS OF DEVELOPED AND UNDER DEVELOPING ECONOMY

(A). Characteristics of developed economy

The total major countries of the world are 182 out of which only 34 are developed and remaining 148 are under developed. Developing Country (DC) is a nation which, compare to developed nations, lacks industrialization, infrastructure, developed agriculture developed natural resources, and suffers from a low per capita income as a result.

Developed Country: A group of industrialized nations including Australia, Austria, Canada, France, Germany, Italy, Japan, UK and USA. In some contexts such countries are collectively called the North.

According to Kofi Annan, former Secretary General of the UN:"A developed country is one that allows all its citizens to enjoy a free and healthy life in a safe environment."

(B). Characteristics of under developing (developing) economy

Developing countries and developed countries are differentiating on the bases of self-esteem, freedom of choice and influence of externals. A country where the average income of the people is much lower than that of developed countries, the economy depends upon a few export crops and where farming is conducted by primary methods is called developing country. Rapid population growth is causing the shortage of food in many developing countries.

Developing Country: Developing countries are also called under-developed nations (UDN) or the South. Most of them are in Africa, Asia and Latin America.

According to **United Nations Experts:** “A developing country is that in which per capita income is low when compared to the per capita incomes of USA, Canada, Australia and Western Europe.”

According to **Prof. R. Nurkse**: “Under developed countries are those which when compared with the advanced countries, are under-equipped with capital in relation to their population and natural resources.”

According to **Michal P. Tadaro**: “The under developed country, is that which has low levels of living (absolute poverty, poor health, poor education and other social services), low self- esteem

(low respect, honour, dignity) and limited freedom (freedom from external influence anddominance, freedom of choice etc.)."

SOME OF THE MOST IMPORTANT STRUCTURAL FEATURES OF DEVELOPINGCOUNTRIES

(i) Lower per-capita income
(ii) Low levels of human capital
(iii) High levels of poverty and under-nutrition
(iv) Higher population growth rates
(v) Predominance of agriculture and low levels of industrialization
(vi) Low level of urbanization but rapid rural-to-urban migration
(vii) Dominance of informal sector
(viii) Underdeveloped labor, financial, and other markets.