

What is 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”*.

Silent feature:

Economic institutions are man made. 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 i.e. Land, Labor, Capital & Entrepreneurship are engaged in some economic activities.

These economic activities bring income and distributed to the economic factor; 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.

On the Basis of Ownership and Control over Means of Production or Resources we Can Divide Economy Into Three Types.

1. Capitalist economy
2. Socialist economy
3. Mixed economy

Feature of capitalistic economy

- **Right to hold private property** In the capitalist economy everybody has right to acquire private property , to keep it and after his death to pass it on his heir. The result of this system is that inequalities of wealth distribution are perpetuated. The rich people become richer and the poor become poorer . The result of this economy is that the lion's shares of the national dividend goes to the powerful capitalist and the rich landlord.
- **Freedom of enterprise**. Freedom of enterprise means freedom of contract and freedom of use ones property. Everybody is free to take up occupation that he likes or start any business he likes.
- **Freedom of choice by consumer** In capitalism every consumer has a choice, and freedom of choice of commodities and services that he wishes to consume. He cannot be forced to consume any particular commodity or service not he can be forced to give up the use of any commodity or service in capitalist economy . It is consumer like and dislike which determine the magnitude and pattern of production.

- **Profit motive** In this economy profit motive of individual governs business enterprises, it is a profit motive which induce people to undertake any production activity. What to produce and how much to produce is determined by the individual profit rather than by social benefit.
- **Class conflict** The society has been divided into two classes the haves and the have not. Conflict between labour and capital is going on in all capitalistic countries.
- **Uncoordinated nature** Since there is no Central direction of economic activities everything seems to be go on automatically. The consumer is the king, it is the consumer preferences which finally decide what should be produced and what should not be produced. Price influence the consumer as well as the producers.
- **Entrepreneur role** The whole production machinery of the country is under the direction of entrepreneur . It is the entrepreneur who hire the other factor of production and undertakes to pay them. He is the sole agent of the community in the matter of production.

- **Control with risk** this is the golden rule of capitalism the person who risk his money must also control the business . It is the rule of capitalism.
- **Competition** This is another characteristic of capitalism the producer compete with one another to get the consumer choice .There is also competition among the buyer to obtain the commodity who bid against one another and offer higher price for the purpose similarly there is a competition among worker for job. So it may be say that perfect competition is rare in capitalism there is imperfect or monopolistic competition.
- **Importance of price system.** Capitalism is said to be governed by the price . It is the price which equate the demand and supply of commodity and factor of production such that if supply is short price rise and demand is cut to the size of supply.
- **Economic inequalities** . Feature of capitalistic countries is the glaring inequality of wealth and income.

Merit of capitalism

Automatic working

In capitalist economy there is no requirement of any Central direction for its functioning. If at any time there is some disturbance in the economy it is rectified through price change.

Higher efficiency and incentive to hard work

In this type of economy worker and entrepreneur are encouraged to improve their efficiency and put in hard work to earn more profit . Hence under capitalism the entire manpower resource of the country work the hardest and the most efficiently in this way the national output increases and economic development is accelerated.

Higher rate of capital formation

People under capitalism have the right to hold property and pass it on in inheritance to their heirs and successor . Going to this right people save a part of their income so that it can be invested to earn more income and leave larger property for their heirs. The rate of capital formation increase when the savings are invested this accelerates economic growth.

- **Optimum utilisation of resources**. Every producer and entrepreneur tries to use the production resource at his disposal in the most economical manner in order to make maximum profit. For any mis utilisation of resources they get prompt punishment.
- **Democratic** The consumer's control give the system a democratic tinge. The consumer consumes what they like and not what is supplied to them. That is, the consumer control production. The consumer constitute the general public, hence the system is democratic.
- **Encouragement to enterprise to risk taking**. Capitalist economy encourages the entrepreneur to take risk and adopt policy because in this way they can make higher profit, higher the risk greater is the profit .They also make innovation in order to cut their cost and maximize their profit. These innovation result in the improvement of production. Hence capitalism brings about a great technological progress in the country.

Demerits

Wasteful competition Expenses incurred on advertisement and salesmanship to defeat a rival is just waste, it's only to boost demand not the quality of the product. Secondly, resources employed for defeated produce in coemption going to be waste. Competition results in production of too many varieties, it is good up to certain extent as it gives alternative to the consumer but too much variety become waste. As a small variety at large scale can be more economical.

Human welfare ignored The economic decision made by individual entrepreneur and producer under capitalism, as it's based on their self interest and not for the shake of the society.

Economic instability and unemployment In capitalist economy due to the higher rate of saving result in over production. Since production is unplanned and is being augmented by ever increasing accumulation of capital while the bulk of consumer are being impoverished more and more and this results in economic instability. Class conflict it divide the society into two part one who have and one who haves not. The labour wants higher wage and short working hour which is against the interest of capitalist. Strikes and lockout are inevitable.

Social injustice and economic inequality.

The extreme inequality of wealth distribution is the worst outcome of capitalism. In this economy there are few rich people and vast masses are poor.

Misallocation of resources production under capitalism is not undertaken merely to satisfy the basic need of the masses of people . The productive resources are utilised for the production of luxury for rich without producing sufficient quantity of goods for mass consumption.

Malpractices The big industrialist and businessman makes payment of handsome salary to influential director . The large scale evasion of fiscal law , luxurious living at Nations cost and persistent generation of Black money through fictitious transactions are also is the unpleasant face of capitalism.