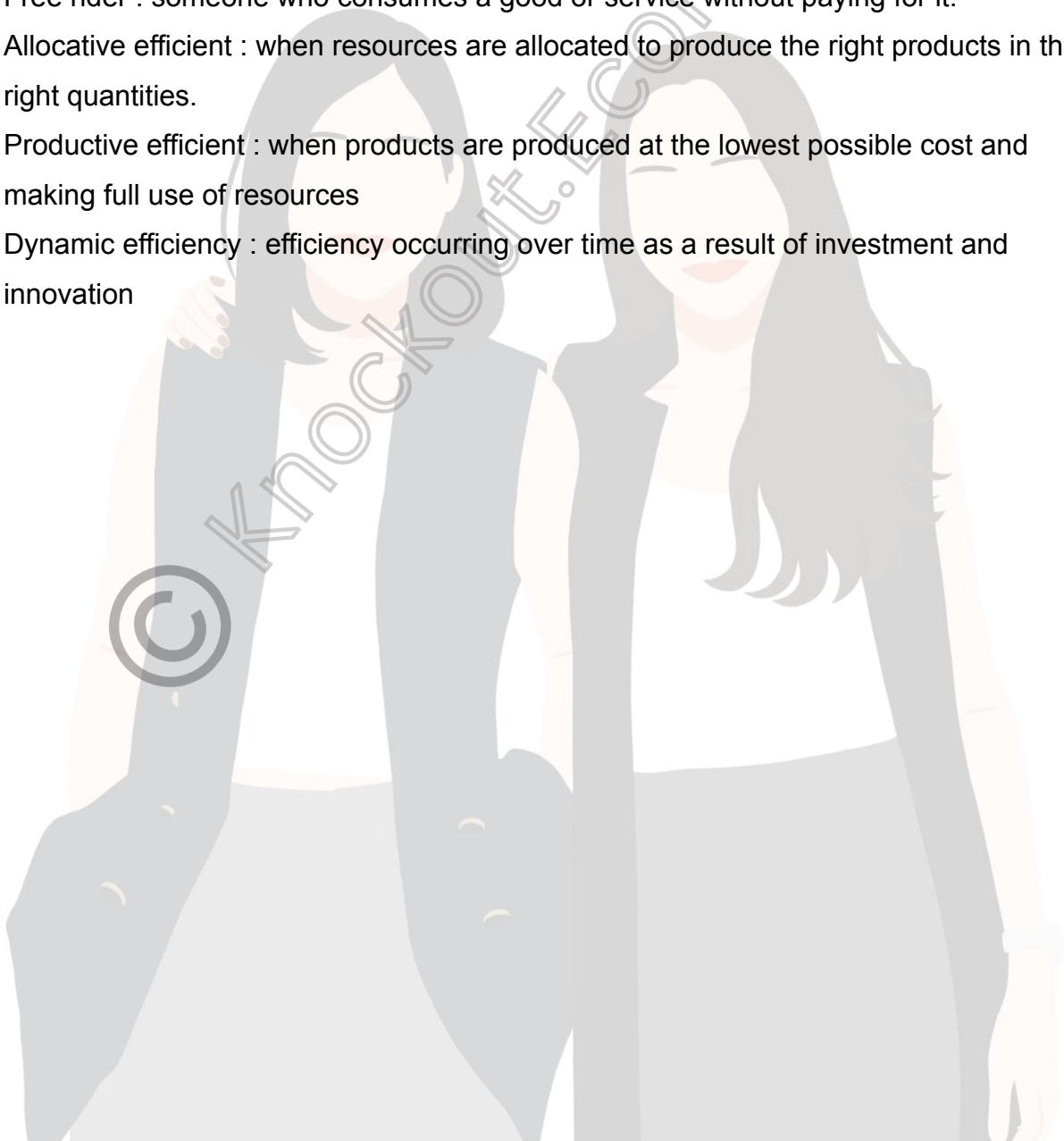


CHAPTER 13 : MARKET ECONOMIC SYSTEM

Key terms

1. Public sector : the part of the economy controlled by the government.
2. State-owned Enterprise (SOES) : organisations owned by the government which sell products
3. Privatisation : the sale of public sector assets to the private sector.
4. Price mechanism : the system by which the market forces of demand and supply determine prices.
5. Market failure : market forces resulting in an inefficient allocation of resources.
6. Free rider : someone who consumes a good or service without paying for it.
7. Allocative efficient : when resources are allocated to produce the right products in the right quantities.
8. Productive efficient : when products are produced at the lowest possible cost and making full use of resources
9. Dynamic efficiency : efficiency occurring over time as a result of investment and innovation



1. The market economic system

Market economic system : resources are allocated by price mechanism. Consumers allocate resources by buying a product. Firms aim for profit maximization and allocate resources to produce a product that consumers' wants.

2. Advantages and disadvantages of market economic system

Advantages	Disadvantages
1.Firms produce products responding to customers' wants.	1.Market may be dominated by only one firm(monopoly).
2. Products are high quality and innovative.	2. Public goods are under provided due to free rider problems.
3. More variety of goods and services for consumers.	3. Merit goods are underconsumption. goods are overconsumption.
4. Due to high competition, firms try to improve efficiency to be competitive in the market.	4. Larger income gap between rich and poor.

3. Types of efficiency

3.1 Allocative efficiency : resources are allocated in a way that maximises customer's satisfaction.

3.2 Production efficiency : when produced at the lowest possible cost per unit.

3.3 Dynamic : efficiency occurring over time as a result of investment and innovation.