# 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 on firms(monopoly). |
| 2. Products are high quality and innovative. | 2. Public goods are under provided due 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 anc |

## 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.