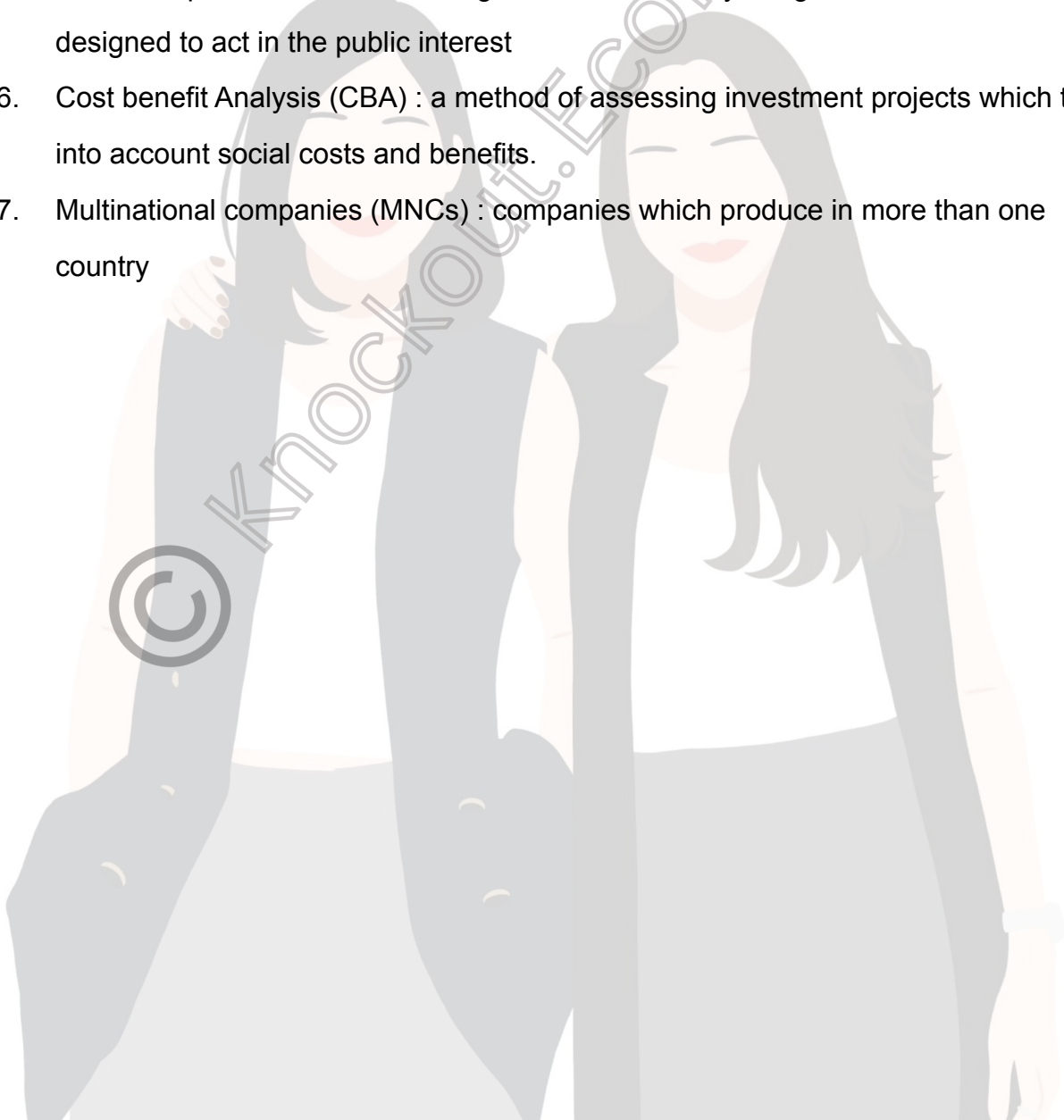


## CHAPTER 15 : MIXED ECONOMIC SYSTEM

### Key terms

1. Mixed economic system : an economy in which both the private and public sectors play an important role.
2. Rationing : a limit on the amount that can be consumed.
3. Lottery : the drawing of tickets to decide who will get the products.
4. Nationalisation: moving the ownership and control of an industry from the private sector to the government
5. Public Corporation: a business organisation owned by the government which is designed to act in the public interest
6. Cost benefit Analysis (CBA) : a method of assessing investment projects which take into account social costs and benefits.
7. Multinational companies (MNCs) : companies which produce in more than one country



**1. A mixed economy**

: Both the government and private sector allocate resources together.

**2. Advantages of mixed economy** : it combines the benefits of the free market and government which allocate resources together.

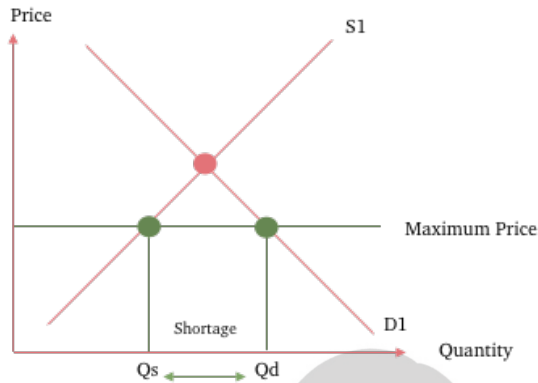
Advantages of free economy	Advantages of government intervention
<ul style="list-style-type: none"><li>1.Many choices of goods and services for consumers</li><li>2.It increases efficiency</li><li>3.Firms have profit motive, so they produce product responding consumers' want</li><li>4.Products are high quality and innovative.</li></ul>	<ul style="list-style-type: none"><li>1.Government concerns social cost and social benefit in decision making.</li><li>2.Government provides information to consumers and producers to reduce imperfect information.</li><li>3.Government subsidizes education and healthcare to encourage the consumption of merit goods.</li><li>4.Government taxes on alcohol and cigarettes to discourage the consumption of demerit goods.</li><li>5.Government directly provides public goods which cannot be charged such as national defence.</li><li>6.Government helps vulnerable people and reduces income inequality.</li></ul>



## 2.1 Maximum prices

→ Maximum price is to prevent too high price in order to enable poor people to afford basic necessities.

→ Effective maximum price must be set below market price.

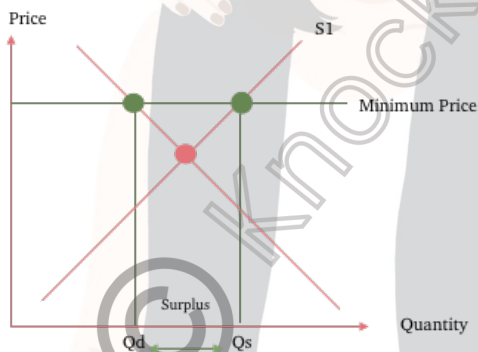


**Problems:** shortage or excess demand.

## 2.2 Minimum Price

→ Goods and services cannot be sold below the minimum price.

→ Minimum price is to prevent too low price in order to stabilize producers' income



**Problems:** surplus of outputs

### 3. Government Policies to correct market failure.

#### 3.1. Subsidies

→ Subsidy is a grant paid by the government to producers in order to reduce cost, lower price of product, increase supply of product and stabilize farmers' income.

**Limitation:** Opportunity cost from subsidy

#### 3.2. Indirect tax

→ Indirect tax is tax on spending.

→ Government may impose indirect tax on cigarettes and alcohol in order to discourage the consumption of demerit goods

#### 3.3 Competition policy

- To prevent firms from abusing their market power to set high prices , the government can use competition policy such as ***the removal of barriers to entry and exit markets, regulation of monopolies and prohibition of uncompetitive practices.***

#### 3.4 Environmental policy

- Government can regulate the amount of pollution emitted by firms.

#### 3.5 Regulation

- E.g. Regulation on pollution and consumption of demerit goods. It includes price control (maximum and minimum price) on uncompetitive practices to prevent monopoly.

#### 3.6 Nationalisation and Privatization

- Nationalisation : transferring the ownership and control of an industry from the private sector to the government

**Advantages and disadvantages of state-owned enterprises (Businesses owned & control by government)**

Advantages	Disadvantages
<p>1. Government takes into account social cost and social benefits in decision making.</p> <p>2. It can prevent private monopoly</p> <p>3. Government aims to maximise social welfare then goods and services provided by government are likely to have low price and high quality.</p>	<p>1. Government might be slowing down decision making.</p> <p>2. It might cause inefficiency and low quality products.</p> <p>3. It has opportunity cost.</p>

**3. 7 Direct provision**

→ Government directly provides public goods (e.g. road, national defence) and merit goods such as education, healthcare)

**3. 8 Unfairness**

→ Government can reduce poverty and income inequality.

↳ by imposing direct tax and contributing tax revenue to help poor people.