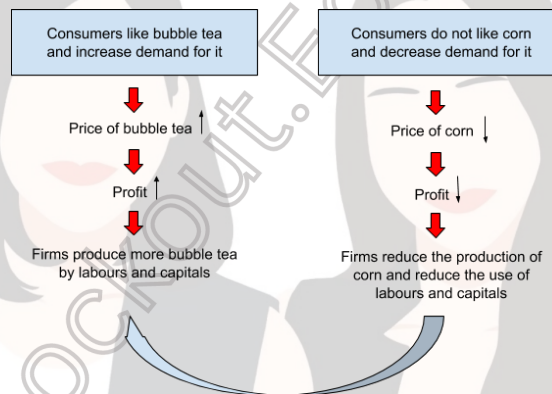


Economic systems

Types of economy

1. A market economy

- **A market economy:** Market force or demand and supply allocate resources without government intervention.
- **All resources are owned by private sector** (individuals and firms).
- **Decentralized decision making:** individuals make their own decisions.
- **Government has limited role:** provide defences, legal and ensure competition
- **E.g.** Australia, USA, Singapore
- **How do consumers and producers allocate resources (Market mechanism)**



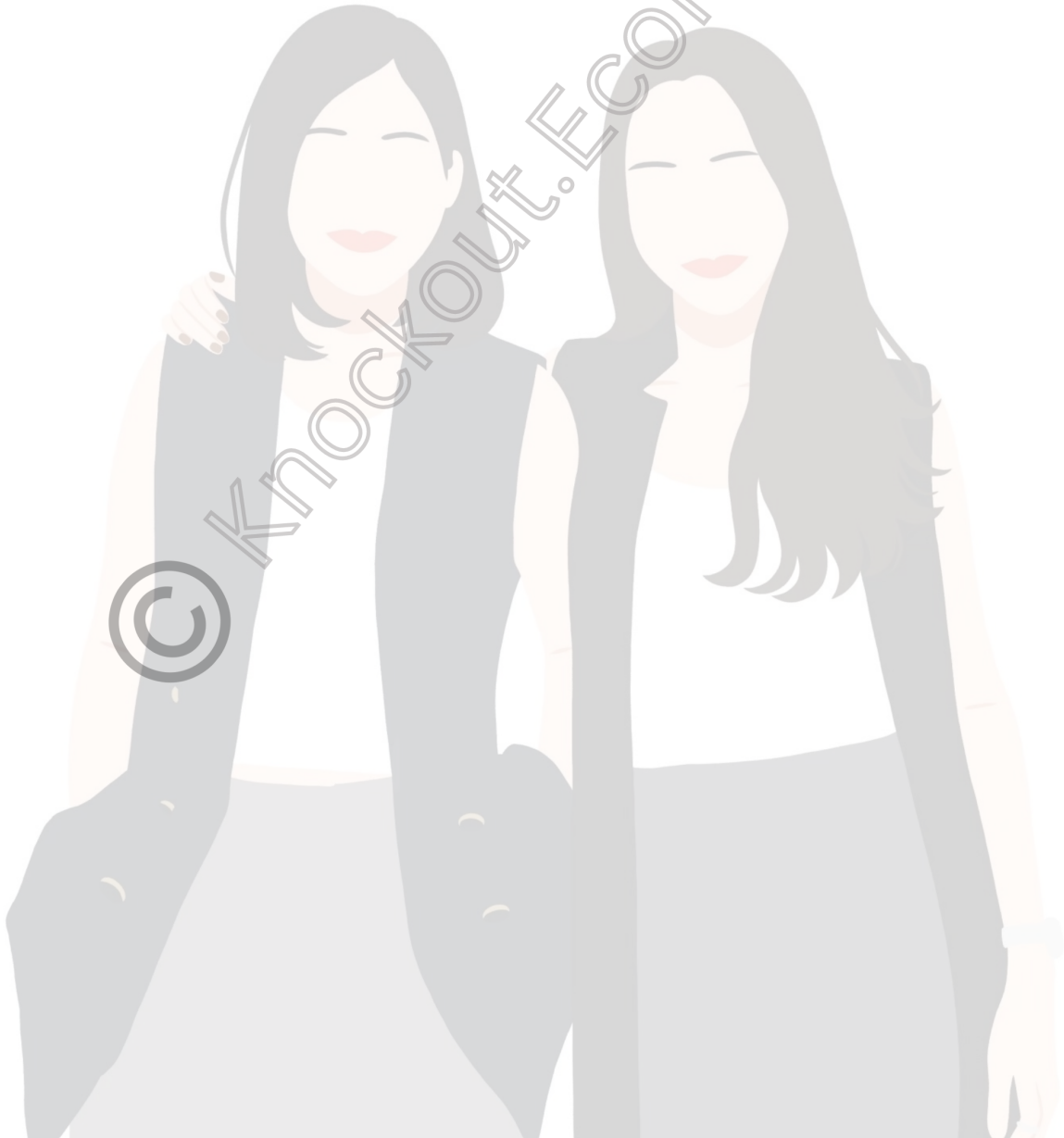
Consumers allocate resources simply by buying a product. Then producers will allocate resources to produce products that consumers' want.

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 or few firms(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. Demerit 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.

2. Command or planned economy (Communist)

- **Command or planned economy:** all resources are owned and allocated by government.
- **All resources are mainly owned by government.**
- **Centralised decision;** Central planning boards and organization make decision.
- **The governments choose, produce and distribute goods and price of goods and services are also set by government.**
- **E.g.** North Korea, Cuba, Myanmar.
- **Marx** supports planned economy.



3. A mixed economy

- **A mixed economy:** both the public sector and private sector help allocating resources together or provide goods and services.
- The majority of countries have mixed economies e.g. Thailand
- **Key resources are owned by government**
 - **Nationalised industries** e.g. oil, coal, electricity, water supply
 - **Private provision** e.g. cloth, vehicle, electronics
- **Decentralised decision and decision can be intervened by government.**

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