**What is Economics**

Economics is about making choices. We make all kinds of choices every day. How much should I spend on gas? What's the best route to work? Where should we go for dinner? Which job or career should I go for? What are the pros and cons of finishing college versus taking a job or inventing the next, best Internet startup? Which roommate should take care of washing the dishes? Can I get that dog as a pet? Should I get married, have children, and if so, when? Which politician should I vote for when they all claim they can improve the economy or make my life better? What is "the economy," anyway? What if my personal or religious principles conflict with what people tell me is in my best economic interest?

Many people hear the word "economics" and think it is all about money. Economics is not just about money. It is about weighing different choices or alternatives. Some of those important choices involve money, but most do not. Most of your daily, monthly, or life choices have nothing to do with money, yet they are still the subject of economics. For example, your decisions about whether it should be you or your roommate who should be the one to clean up or do the dishes, whether you should spend an hour a week volunteering for a worthy charity or send them a little money via your cell phone, or whether you should take a job so you can help support your siblings or parents or save for your future are all economic decisions. In many cases, money is merely a helpful tool or just a veil, standing in for a partial way to evaluate some of the goals you really care about and how you make choices about those goals.

You might also think economics is all about "economizing" or being efficient–not making foolish or wasteful choices about how you spend or budget your time and money. That is certainly part of what economics is about. However, that's just the tip of the iceberg. We all know that we can save money or time by being more efficient in our planning. A trip to the supermarket can be coordinated with a trip to take your child to school or to deposit a check at the bank across the street to save on gas. But we sometimes don't choose the most efficient options. Why not? Economics is also about plumbing the depths of why we sometimes do and sometimes don't make what seem like the most economizing or economical choices.

**What is an economy**

An economy consists of various markets, which are essentially a gathering of buyers and sellers. Economic markets are mechanisms used to allocate scarce resources in an economy. A country's economy is a macroeconomic topic, but an economic market is a microeconomic mechanism that explains how the economy works.

An economy consists of consumers who buy products and services, businesses who employ consumers and make goods, and the government at various level who both buy products, employ labour and levy taxes. Their collective interactions create a simplified economy.

An efficient economy allows easier movement of labour from households to firms, goods and services from firm to firm, and goods and services from firms to households. It also allows an easier movement of labour from one firm to another, and goods and services from firms to households.

**Ten Principles of Economics**

1. **People Face Trade-offs**

To get one thing, we usually have to give up something else

Ex. Leisure time vs. work

2. **The Cost of Something is What You Give Up to Get It**

Opportunity cost is the second best alternative foregone.

Ex. The opportunity cost of going to college is the money you could have earned if you used that time to work.

3. **Rational People Think at the Margin**

Marginal changes are small, incremental changes to an existing plan of action

Ex. Deciding to produce one more pencil or not

People will only take action of the marginal benefit exceed the marginal cost

4. **People Respond to Incentives**

Incentive is something that causes a person to act. Because people use cost and benefit analysis, they also respond to incentives

Ex. Higher taxes on cigarettes to prevent smoking

5. **Trade Can Make Everyone Better Off**

Trade allows countries to specialize according to their comparative advantages and to enjoy a greater variety of goods and services

6. **Markets Are Usually a Good Way to Organize Economic Activity**

Adam Smith made the observation that when households and firms interact in markets guided by the invisible hand, they will produce the most surpluses for the economy

7. **Governments Can Sometimes Improve Economic Outcomes**

Market failures occur when the market fails to allocate resources efficiently. Governments can step in and intervene in order to promote efficiency and equity.

8. **The Standard of Living Depends on a Country's Production**

The more goods and services produced in a country, the higher the standard of living. As people consume a larger quantity of goods and services, their standard of living will increase

9. **Prices Rise When the Government Prints Too Much Money**

When too much money is floating in the economy, there will be higher demand for goods and services. This will cause firms to increase their price in the long run causing inflation.

10. **Society Faces a Short-Run Trade-off Between Inflation and Unemployment**

In the short run, when prices increase, suppliers will want to increase their production of goods and services. In order to achieve this, they need to hire more workers to produce those goods and services. More hiring means lower unemployment while there is still inflation. However, this is not the case in the long-run.

**What are Economic Agents?**

Economic agents refer to individuals, groups, or entities that participate in economic activities by making decisions, taking actions, and interacting within an economic system. These agents play a crucial role in the functioning of economies, contributing to the production, distribution, and consumption of goods and services. Various economic agents can be identified, each with specific roles and functions. Here are some key economic agents:

1. Households:

Role: Households are individuals or groups of people who consume goods and services. They are the ultimate consumers in the economy, making decisions about how to allocate their income for various needs and wants.

2. Firms (Businesses):

Role: Firms are entities engaged in the production of goods and services. They transform inputs (such as labour, capital, and raw materials) into output for sale in the market. Firms aim to maximize profits and often compete with each other.

3. Governments:

Role: Governments play a multifaceted role in the economy. They collect taxes, regulate economic activities, provide public goods and services, implement monetary and fiscal policies, and address market failures. Governments influence economic conditions and the overall well-being of society.

4. Financial Institutions:

Role: Financial institutions, including banks and financial markets, facilitate the flow of money and capital within the economy. They provide financial services such as lending, borrowing, and investment, supporting economic activities and growth.

5. Foreign Entities:

Role: Foreign entities, including governments, firms, and consumers from other countries, engage in international trade and financial transactions. Global economic interactions involve the exchange of goods, services, and capital across borders.

6. Nonprofit Organizations:

Role: Nonprofit organizations, also known as NGOs or charities, operate in the economy to address social or environmental issues. While their primary goal may not be profit, they play a role in resource allocation and societal well-being.

7. Labor:

Role: Labor represents the workforce, consisting of individuals who provide their skills and services in exchange for wages or salaries. Labor is a critical input in the production process and a key economic agent.

8. Entrepreneurs:

Role: Entrepreneurs are individuals who take risks to start and operate businesses. They innovate, invest, and drive economic growth by identifying opportunities and creating new products, services, or markets. A businessman follows an established path engraved by someone with an unoriginal idea, but an entrepreneur believes and thinks about making his/her own path with new ideas. A businessman runs an undertaking or a business, whereas an entrepreneur runs a startup with an original, innovative product/idea.

These economic agents interact in complex ways, forming the foundation of economic systems. The decisions and actions of these agents influence resource allocation, market dynamics, and the overall functioning of economies. Economic analysis often focuses on understanding the behaviour and interactions of these agents to gain insights into economic phenomena.

**Question: Which type of activity is revenue collection**

Revenue collection is typically considered an economic activity. It involves the collection of funds, often in the form of taxes or fees, by a government or an organization. This revenue is crucial for funding public services, infrastructure development, and other government functions. Since it involves the flow of money and has economic implications, revenue collection falls under the category of economic activities.

**Question: Is NGO part of economic agent**

Yes, non-governmental organizations (NGOs) are considered part of the economic landscape as economic agents. While NGOs are not driven by profit motives like businesses, they play a significant role in economic activities, especially in areas related to social and community development. NGOs often engage in various activities such as providing services, promoting education, healthcare, and contributing to overall social well-being.

These organizations may receive funding from donors, governments, or other sources, and they use these resources to carry out their missions. Thus, NGOs are recognized as economic agents, though their goals are typically centred around social or environmental objectives rather than maximizing profits.

**Economic and Non- Economic Activities**

Economic and non-economic activities differ based on whether they involve the production, distribution, and consumption of goods and services for the purpose of satisfying human wants and needs. Here are the key differences between economic and non-economic activities:

**1. Definition:**

Economic Activities: Economic activities involve the production, distribution, and consumption of goods and services with the primary aim of earning a livelihood, generating income, or making a profit. These activities contribute to the economic well-being of individuals and societies. They contribute to the flow of goods and services in the market.

Non-economic Activities: Non-economic activities are those actions that do not directly contribute to the production or consumption of goods and services for economic purposes. They may have social, cultural, personal, or recreational significance.

**2. Purpose:**

Economic Activities: The primary purpose of economic activities is to satisfy human wants and needs for survival, comfort, and well-being. These activities are driven by the pursuit of economic goals such as earning income, creating wealth, and maximizing utility.

Non-economic Activities: Non-economic activities serve various purposes that are not primarily driven by economic motives. They may be undertaken for personal satisfaction, social interaction, cultural preservation, or other non-monetary reasons.

**3. Involvement of Resources:**

Economic Activities: Economic activities involve the use of scarce resources such as labor, capital, land, and entrepreneurship to produce goods and services. These resources are allocated to maximize efficiency and productivity.

Non-economic Activities: Non-economic activities may not involve the same resource allocation considerations as economic activities. They can be pursued without a direct focus on optimizing resource use for economic gain.

**4. Transaction Involvement:**

Economic Activities: Economic activities often involve transactions in markets, where goods and services are bought and sold. There is a monetary or exchange element, and prices play a role in resource allocation.

Non-economic Activities: Non-economic activities may not involve market transactions or monetary exchanges. Participants engage in these activities for personal or social reasons without a direct intention to buy or sell goods or services.

**5. Examples:**

Economic Activities: Examples of economic activities include manufacturing, farming, services, trade, and any other activity that contributes to the production and exchange of goods and services for monetary gain.

Non-economic Activities: Examples of non-economic activities include household chores, volunteer work, pursuing hobbies, engaging in leisure activities, and spending time with friends and family.

**6. Measurability:**

Economic Activities: Economic activities are often measurable in terms of monetary units. Metrics such as GDP (Gross Domestic Product) and income levels are used to quantify economic activities.

Non-economic Activities: Non-economic activities may not be easily measurable in monetary terms. Their value is often subjective and may be assessed based on personal satisfaction, well-being, or cultural significance.

In summary, the distinction between economic and non-economic activities lies in their primary purpose, involvement of resources, transaction nature, and measurability. Economic activities are primarily driven by the goal of satisfying economic needs, while non-economic activities encompass a broader range of actions undertaken for various non-monetary reasons.

## Economic Activities

Economic activities refer to the various actions and processes undertaken by individuals, businesses, and governments to produce, distribute, and consume goods and services in an effort to satisfy human wants and needs. These activities are fundamental to the functioning of an economy and contribute to the overall well-being and development of societies. Economic activities can be broadly categorized into three main types:

1. Production Activities:

Definition: Production activities involve the creation or transformation of goods and services using various inputs such as labour, capital, and raw materials.

Examples: Manufacturing, agriculture, mining, construction, and any other process that results in the creation of tangible or intangible products.

2. Distribution Activities:

Definition: Distribution activities focus on the movement of goods and services from producers to consumers. This includes activities related to transportation, logistics, and trade. Examples: Wholesale and retail trade, transportation, warehousing, and logistics. Distribution activities ensure that products reach the end consumers efficiently.

3. Consumption Activities:

Definition: Consumption activities involve the final use or enjoyment of goods and services by individuals or households. This is the ultimate stage where economic resources are used to satisfy human wants and needs.

Examples: Purchasing goods and services for personal use, dining at a restaurant, watching a movie, and any other activity where individuals use or consume products.

Now, how economic activities are performed in the economy depends on the economic system and the policies imposed by the economic system.

## How Economics Evolved?

Economics and principles of Economics have been present since the emergence of human societies. As long as humans have existed, they have engaged in activities related to production, consumption, and the allocation of resources. However, the formalization of economics as a distinct field of study is often associated with the works of classical economists.

**Mercantilism:** was a form of economic nationalism that sought to increase the prosperity and power of a nation through restrictive trade practices. Its goal was to increase the supply of a state's gold and silver with exports rather than to deplete it through imports. It also sought to support domestic employment. Mercantilism emphasized the idea of a positive balance of trade, meaning a nation should export more than it imports to accumulate precious metals. However, this approach often led to trade imbalances and strained relationships between countries. Persistent trade surpluses for some nations and deficits for others contributed to economic tensions. Mercantilist policies often involved the exploitation of colonies for raw materials and as markets for finished goods. The economic and social costs of such colonial practices, including forced labor and resource depletion, generated ethical concerns and resistance. Mercantilist policies, with their focus on accumulating gold and silver, did not encourage diversification of the economy. Spain's over-reliance on bullion left it vulnerable to fluctuations in commodity prices and shifts in global economic dynamics.

**Physiocracy:** Physiocracy is an economic theory which states that the wealth of nations is derived solely from the value of "land agriculture" or "land development" and that agricultural products. The Physiocrats were a group of economists who believed that the wealth of nations was derived solely from agriculture. Physiocracy's exclusive emphasis on agriculture as the sole productive sector and source of wealth limited its applicability. The narrow focus neglected the role of manufacturing, commerce, and other industries in contributing to economic development and growth.

**Classicals** were the first one who formalized the subject of economics. The formalization of economics by the Classical economists contributed to the establishment of economic principles, theories, and methods that continue to shape the field today. Their systematic approach to understanding economic phenomena laid the groundwork for the evolution of economic thought in the subsequent centuries.

**Adam Smith** is the famous classical economist, who is celebrated as the "Father of Economics" in the field of economics. His profound impact on contemporary economic thought is evident through his influential works like "An Inquiry into the Nature and Causes of the Wealth of Nations" and "The Theory of Moral Sentiments." These writings established the fundamental principles that greatly advanced our comprehension of economic concepts.

Adam Smith, in his work explored the factors that contribute to the wealth and prosperity of a nation. His views on the causes of the wealth of nations can be summarized as follows:

1. Division of Labor:

Key Concept: Smith emphasized the significance of the division of labor, where tasks are specialized and allocated to different individuals or groups. Division of labour refers to the specialization of tasks and the allocation of different parts of a production process to different individuals or groups. This concept is often associated with increased efficiency and productivity in the production of goods and services. The division of labour allows workers to focus on specific tasks, becoming experts in their respective areas, and contributes to overall economic development

Impact: Specialization increases productivity, efficiency, and the overall output of goods and services. This, in turn, contributes to the wealth of a nation.

2. Free Market and Competition:

Laissez-Faire Economics: Smith advocated for a laissez-faire economic system, where markets operate with minimal government intervention.

Competition: Smith believed that free markets and competition encourage innovation, efficiency, and the best allocation of resources, leading to increased wealth.

3. Invisible Hand:

Concept: Smith introduced the metaphor of the "invisible hand" to describe how individuals, pursuing their own self-interest in a market economy, unintentionally contribute to the overall well-being of society.

Market Coordination: The invisible hand guides individuals to produce goods and services that are in demand, leading to the efficient allocation of resources and the creation of wealth.

4. Role of Government:

Limited Government Intervention: While Smith acknowledged some roles for government, such as defence, justice, and public infrastructure, he generally favored limited government interference in economic affairs.

Government's Role: Smith believed that government should enforce contracts, protect property rights, and ensure fair competition but should avoid excessive regulation.

7. Labor Theory of Value:

Value Creation: Smith, influenced by the labour theory of value, argued that the value of goods and services is ultimately determined by the labour required for their production.

**Microeconomics:**

What it Studies: Microeconomics zooms in on small things. It looks at how individuals, households, and businesses make decisions about buying and selling goods and services.

Examples: If you wonder why the price of your favourite snack went up, or why a company decided to produce more smartphones, that's microeconomics in action.

Focus: Microeconomics is like looking through a magnifying glass at the everyday choices people and businesses make.

**Macroeconomics:**

What it Studies: Macroeconomics takes a big-picture view. It's interested in how the entire economy behaves. It looks at things like overall employment, inflation (how prices change), and the total production of goods and services in the whole country.

Examples: When you hear about the country's unemployment rate or why the government might increase or decrease taxes, that's macroeconomics at work.

Focus: Macroeconomics steps back and looks at the economy as a whole, considering the bigger trends and patterns.

In Simple Terms:

Microeconomics is like looking at individual puzzle pieces: How people decide to spend their money, why a company sets a certain price, or what factors influence your decisions.

Macroeconomics is like looking at the whole puzzle: How all those individual decisions add up to the overall health of the economy, including whether there are lots of jobs available, whether prices are going up, and how fast the economy is growing.

In essence, microeconomics deals with small-scale economic decisions, while macroeconomics deals with the big picture of how these decisions shape the entire economy.

For eg. In Microeconomics you will study individual income. What factors affect the income of the household or consumption pattern of the household; whereas in macroeconomics you will study the income of the whole economy What factors affect income of the economy political stability, natural resources, total investment in the economy.

In microeconomics you deal with household and firm level decisions How much to produce at what price and how much to consume whereas in macroeconomics you study how much is the total production at aggregate level.

Microeconomics studies individual prices like how the prices of iPhone is decided at the firm level (what is the demand and what is the supply). In macroeconomics we explore the overall price level (eg. If exporting more than import then there is influx of dollar. How the influx of dollar is going to affect the general price level).

**The Paradox of Thrift**

The paradox of thrift is an economic concept that refers to a situation where individual attempts to increase saving, particularly during an economic downturn, may lead to an overall decrease in aggregate demand and economic growth. This paradox is rooted in the idea that what might be individually rational behaviour can have unintended negative consequences at the macroeconomic level. Here's a breakdown of the paradox of thrift:

1. Individual Behaviour:

When individuals or households decide to increase their savings during times of economic uncertainty or downturn, it is often viewed as a prudent and rational decision at the personal level. Saving for the future is generally considered financially responsible.

2. Aggregate Demand:

However, when a significant portion of the population collectively decides to save more and reduce spending, it can lead to a reduction in overall consumer spending. Consumer spending is a major component of aggregate demand, which drives economic activity.

3. Impact on Businesses:

Reduced consumer spending means lower demand for goods and services. In response, businesses may experience a decline in sales and revenue. This can lead to production cutbacks, layoffs, and decreased investment in new projects.

4. Unintended Consequences:

The paradox of thrift emerges when the attempt of individuals to increase personal savings results in a decrease in overall economic activity. What is individually rational behaviour ends up having negative consequences for the economy as a whole.

5. Feedback Loop:

The reduction in economic activity can create a feedback loop. As businesses cut back on production and employment, incomes decline, and more people may feel the need to save even more as job security becomes a concern. This can perpetuate a cycle of reduced consumer spending and economic downturn.

It's important to note that the paradox of thrift is a concept within a specific economic framework, and different economic theories may offer alternative perspectives on the relationship between saving, spending, and economic growth. The paradox highlights the interconnected nature of individual and macroeconomic behaviour and the potential for unintended consequences when widespread changes in behaviour occur.

**Economic Fallacies**

Economic fallacies refer to incorrect beliefs or misunderstandings about how economic systems work. These misconceptions often involve faulty reasoning or flawed assumptions about economic principles, policies, or behaviours. Economic fallacies can lead to misguided decisions and policies if not recognized and corrected. It's crucial for individuals, policymakers, and economists to be aware of these fallacies to make more informed and effective economic choices.

In simple terms, economic fallacies are mistakes or misunderstandings about how the economy works. These mistakes often involve thinking that something is true about money, jobs, or the economy when it might not be. Economic fallacies can lead to wrong decisions or beliefs about how to improve the economy or personal finances. Recognizing and understanding these mistakes is important for making better economic decisions.

1. Post hoc fallacy, is a logical fallacy that occurs when someone assumes that because one event preceded another, the first event must have caused the second event. In other words, it involves mistakenly inferring a cause-and-effect relationship based solely on the chronological order of events.
2. The "failure to hold other things constant" fallacy, also known as the ceteris paribus fallacy, occurs when one incorrectly assumes that the relationship between two variables is isolated and unaffected by other factors.
3. The fallacy of composition occurs when one mistakenly assumes that what is true for a part of a whole must also be true for the whole. In other words, it involves incorrectly generalizing properties or characteristics from individual elements to the entire group or system. This fallacy arises from an oversight of the complexity and interdependence of elements within a larger entity.

**Positive and Normative Economics**

Positive economics and normative economics are two branches of economic analysis that serve different purposes and involve distinct approaches:

1. Positive Economics:

Objective: Positive economics is concerned with describing and explaining economic phenomena as they are, without making value judgments or expressing opinions about whether they are good or bad.

Focus: It focuses on what is and aims to provide objective analysis based on facts, data, and empirical evidence.

Statement Examples: "Unemployment rate is 5%," "Increasing the minimum wage leads to job losses," or "Inflation rose by 2% last year."

Role: Positive economics seeks to be scientific, relying on observable and testable facts to develop theories and make predictions.

2. Normative Economics:

Objective: Normative economics involves making value judgments and expressing opinions about what ought to be or what is desirable.

Focus: It deals with questions of policy and involves subjective assessments of economic policies, actions, or outcomes based on ethical, moral, or philosophical considerations.

Statement Examples: "The government should increase spending on education," "Income inequality is morally wrong and should be reduced," or "Tariffs are unjust and should be eliminated."

Role: Normative economics is inherently subjective and involves personal or societal values. It often includes discussions about fairness, equity, and ethical considerations.

Key Differences:

**Nature of Statements:**

Positive Economics: Involves statements that are factual and can be tested.

Normative Economics: Involves statements that express opinions, values, or subjective judgments.

**Focus:**

Positive Economics: Focuses on describing and explaining economic phenomena without making value judgments.

Normative Economics: Focuses on prescribing or recommending what should be done based on subjective values.

**Objectivity vs. Subjectivity:**

Positive Economics: Strives for objectivity by relying on empirical evidence and data.

Normative Economics: Inherently subjective, involving personal or societal values and opinions.

**Purpose:**

Positive Economics: Aims to provide an objective understanding of how economic systems operate.

Normative Economics: Aims to influence and guide economic policy by expressing value-based judgments.

Both positive and normative economics play important roles in economic analysis, with positive economics providing the foundation of empirical understanding, and normative economics contributing to discussions about policy, ethics, and societal values.

## Three Central Problems of an Economy

The three central economic problems, often referred to as the fundamental economic questions, are fundamental challenges that every economy faces. These problems arise due to the scarcity of resources relative to unlimited human wants and needs and each resource has its alternative use. The three central economic problems are:

**1.What to Produce:**

Problem: This question addresses the allocation of resources among different goods and services. In a world of limited resources, choices must be made about which goods and services to produce.

Allocation Decision: Economies must decide on the mix of goods and services that will be produced based on consumer preferences, societal needs, and available resources.

**2. How to Produce:**

Problem: This question pertains to the methods and technologies used in the production process. It involves decisions about the combination of labor, capital, and other factors of production to produce goods and services efficiently.

Production Techniques: Economies need to determine the most efficient and cost-effective ways to produce goods and services, considering factors such as technology, labor skills, and available capital.

**3. For Whom to Produce:**

Problem: This question addresses the distribution of goods and services among different individuals or groups in society. It involves decisions about how the benefits of production are distributed among the population.

Distributional Equity: Economies must consider issues of fairness and equity in the distribution of goods and services. This includes decisions about income distribution, access to resources, and social welfare.

These three central economic problems highlight the challenges that arise due to the fundamental economic condition of scarcity. They guide the decision-making processes within an economy and influence the development of economic systems and policies. Different economic systems, such as market economies, planned economies, or mixed economies, provide distinct ways of addressing these central economic problems. The study and resolution of these problems are core concerns in the field of economics.

## Types of Economic Systems

There are many types of economies around the world. Each has its own distinguishing characteristics, although they all share some basic features. Each economy functions based on a unique set of conditions and assumptions. Economic systems can be categorized into four main types: traditional economies, command economies, mixed economies, and market economies.

**1. Traditional economic system**

The traditional economic system is based on goods, services, and work, all of which follow certain established trends. It relies a lot on people, and there is very little division of labor or specialization. In essence, the traditional economy is very basic and the most ancient of the four types.

Some parts of the world still function with a traditional economic system. It is commonly found in rural settings in second and third world nations, where economic activities are predominantly farming or other traditional income-generating activities.

There are usually very few resources to share in communities with traditional economic systems. Either few resources occur naturally in the region or access to them is restricted in some way. Thus, the traditional system, unlike the other three, lacks the potential to generate a surplus. Nevertheless, precisely because of its primitive nature, the traditional economic system is highly sustainable. In addition, due to its small output, there is very little wastage compared to the other three systems.

**2. Command economic system**

In a command system, there is a dominant centralized authority – usually the government – that controls a significant portion of the economic structure. Also known as a planned system, the command economic system is common in communist societies since production decisions are the preserve of the government.

If an economy enjoys access to many resources, chances are that it may lean towards a command economic structure. In such a case, the government comes in and exercises control over the resources. Ideally, centralized control covers valuable resources such as gold or oil. The people regulate other less important sectors of the economy, such as agriculture.

In theory, the command system works very well as long as the central authority exercises control with the general population's best interests in mind. However, that rarely seems to be the case. Command economies are rigid compared to other systems. They react slowly to change because power is centralized. That makes them vulnerable to economic crises or emergencies, as they cannot quickly adjust to changing conditions.

**3. Market economic system**

Market economic systems are based on the concept of free markets. In other words, there is very little government interference. The government exercises little control over resources, and it does not interfere with important segments of the economy. Instead, regulation comes from the people and the relationship between supply and demand.

The market economic system is mostly theoretical. That is to say, a pure market system doesn't really exist. Why? Well, all economic systems are subject to some kind of interference from a central authority. For instance, most governments enact laws that regulate fair trade and monopolies.

From a theoretical point of view, a market economy facilitates substantial growth. Arguably, growth is highest under a market economic system.

A market economy's greatest downside is that it allows private entities to amass a lot of economic power, particularly those who own resources of great value. The distribution of resources is not equitable because those who succeed economically control most of them.

**4. Mixed system**

Mixed systems combine the characteristics of the market and command economic systems. For this reason, mixed systems are also known as dual systems. Sometimes the term is used to describe a market system under strict regulatory control.

Many countries in the developed western hemisphere follow a mixed system. Most industries are private, while the rest, composed primarily of public services, are under the control of the government.

Mixed systems are the norm globally. Supposedly, a mixed system combines the best features of market and command systems. However, practically speaking, mixed economies face the challenge of finding the right balance between free markets and government control. Governments tend to exert much more control than is necessary.