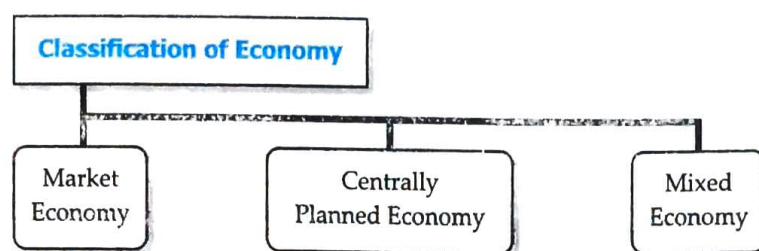


# An Extra Mile

## 1 CLASSIFICATION OF ECONOMY

The classification of an economy or solution of central problems in different types of **economies** can be studied under *three* heads :



### (i) Market Economy

In a market economy, all economic activities are organised through the market. It is also known as capitalist economy. In a market or capitalist economy, central problems of what, how and for whom to produce are solved by price mechanism *i.e.*, by the prices prevailing in the market. In this economy, market forces, demand and supply are left free to determine price. Here production is done mainly for *earning profits*. In this economy, means of production are owned and controlled by the private sector. There is no Govt. interference.

### (ii) Centrally Planned Economy

It is also known as a socialist economy. Here central problems of what, how and for whom to produce are solved through central planning. *The Govt. or central authority* of the economy plans all the important activities like production, exchange etc. *The prices* are determined by the *planning authority*. All decisions are taken with respect to maximize *social welfare*.

### (iii) Mixed Economy

It is mix of public and private sector in the field of production. In this economy important decisions regarding what, how and for whom to produce are taken by Govt. and economic activities are by and large conducted by the market. All decisions aim to achieve profit maximisation alongwith social welfare.

### Difference among Market Economy, Centrally Planned Economy and Mixed Economy

Basis		Market economy	Centrally planned economy	Mixed economy
1.	Nature	It is a free economy where market forces of demand and supply organise economic activities.	A planned economy which is under direct control of Government. Here economic activities are regulated by the Govt.	Important decisions are taken by the Govt. and economic activities are conducted by the market.
2.	Motive of production	Profit motive is the principal objective of production activity.	Social welfare is the principal objective of production activity.	Profit motive in private sector and social welfare in public sector.

	Basis	Market economy	Centrally planned economy	Mixed economy
3.	Role of Govt.	There is no direct intervention by the Govt.	The Govt. plays an active role in the process of production.	Full control of Govt. in public sector and partial control in private sector.
4.	Solution to central problems	Central problems of what, how and for whom to produce are solved through price mechanism.	Central problems are solved through planning mechanism.	Both the price mechanism and planning mechanism function.
5.	Competition	Competition exists.	No competition	Competition exists in private sector only.

## 2 Some Basic Tools in the Study of Economics

(i) **Equation of a line.** The general equation of a straight line is given by

$$ax + by = c$$

where (i)  $a$ ,  $b$  and  $c$  are constants

(ii)  $a$  and  $b$  can not be zero

(ii) **Slope of a line.** Slope is defined as the amount of change in the variable measured on vertical (Y) axis with respect to change in the variable measured on the horizontal (X) axis.

Slope of a line between two points is the change in quantity measured on the Y-axis divided by change in quantity measured on the X-axis.

$$\text{Slope} = \frac{\Delta Y}{\Delta X}$$

Straight lines have the same slope. It means change in one variable in response to a unit change in other, remains same at all points on a straight line. (Fig. A)

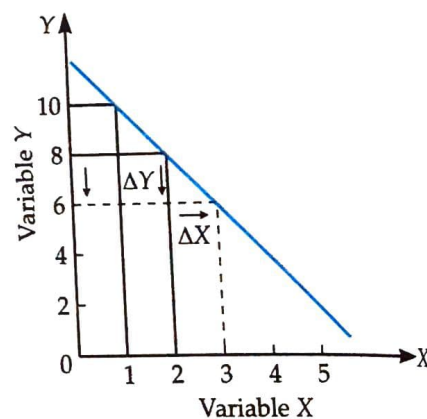


Figure A

(iii) **Slope of a curve (Non-Linear).** The slope of a curve is continuously changing as it is a curved line.

For example,

$$\text{Slope of curve from N to B} = \frac{NP}{PB} \frac{(\Delta Y)}{(\Delta X)}$$

is different from slope measured from B to D. (Fig. B)

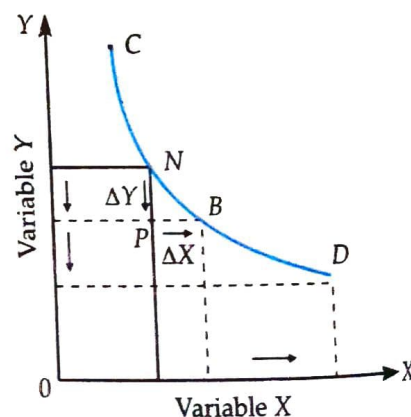


Figure B