



National University of Modern Languages, Islamabad

Assignment no 1

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1. ECONOMIC SYSTEM

An economic system is the way a society organizes and manages its resources (like land, money, and labor) to produce goods and services and distribute them among people.

1.1 Market Economy/Capitalistic Economy

In this system, most economic decisions are made by private individuals and businesses. Prices are decided by demand and supply in the market.

Features:

- Private ownership of resources.
- Competition drives innovation.
- Profit is the main motive.
- Very little government interference.

Pros:

- Encourages creativity and efficiency.
- Wide variety of goods and services.
- Consumers have many choices.

Cons:

- Can create inequality between rich and poor.
- Profit-driven, so social welfare is often ignored.
- Risk of exploitation (workers, environment).

1.2 Planned Economy / Socialistic Economy

Here, the government controls most resources and makes the key economic decisions (what to produce, how to produce, for whom).

Features:

- State ownership of industries.
- Focus on equality and welfare.
- Central planning replaces market demand and supply.

Pros:

- Reduce inequality.
- Provides basic needs (education, healthcare, housing).

- Aims for fair distribution of wealth.

Cons:

- Less innovation and competition.
- Bureaucracy and inefficiency.
- Shortages or surpluses because of rigid planning.

1.3 Mixed Economy

This system combines both capitalism and socialism. Some industries are privately owned, while others are managed by the government.

Features:

- Balance of private freedom and government control.
- Both profit and welfare motives.
- Public and private sectors work together.

Pros:

- Encourages innovation but also ensure welfare.
- Reduces the extreme inequalities of capitalism.
- Provides stability and growth.

Cons:

- Sometimes conflict between private and public interest.
- Government involvement can still cause corruption or inefficiency.

1.4 Islamic Economy

An economy based on the principles of Islam, aiming for justice, fairness, and social welfare while allowing private ownership and trade.

Features:

- Prohibition of interest(Riba).
- Encourages profit-sharing and risk-sharing.
- **Zakat (charity)** to help the poor.
- Balance between material needs and moral values.
- Protection of both individual rights and community welfare.

Pros:

- Promotes fairness and social justice.

- Reduces poverty through zakat and charity.
- Prevents exploitation through ban on interest.
- Encourages ethical trade and honesty.

Cons:

- Implementation in modern global systems can be complex.
- Requires strong moral and religious commitment.

1.5 Comparison

Aspect	Market Economy	Planned Economy	Mixed Economy	Islamic Economy
Ownership of resources	Mostly private ownership	State(government)owns and controls	Both private & state ownership	Private ownership allowed, nut within Shariah limits
Main motive	Profit	Social welfare & equality	Balance of profit & welfare	Justice, fairness & welfare guided by Islam principles
Role of government	Very limited	Strong control over economy	Moderate – regulates & support	Regulates according to Shariah (ban on interest, zakat, fair trade)
Wealth distribution	Unequal, wide gap between rich & poor	More equal distribution	Tries to reduce inequality	Fair distribution through zakat, charity, and ethical rules
Innovation & efficiency	High(due to competition)	Low(less incentive)	Moderate (mix or both)	Encouraged, but within moral limits
Social welfare	Often ignored	Strongly emphasized	Considered important	Strongly emphasized (obligatory zakat, prohibition of exploitation)

Key weakness	Exploitation & inequality	Inefficiency & lack of freedom	Conflict between private & public interest	Practical challenges in modern global system
Unique feature	Driven by supply and demand	Central planning by government	Combination of both systems	Ban on interest (Riba), zakat system, ethical trading
