

# COMPARATIVE ANALYSIS OF MARKET AND PLANNED ECONOMY

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## What is an economic system?



An economic system is the way in which a country uses its available resources to satisfy the demands of its inhabitants for goods and services

# THE BASIC ECONOMIC SYSTEMS

## Planned economy

- A planned economy is an economic system in which the state or government controls the factors of production and makes all decisions about their use and about the distribution of income. In such an economy, the planners decide what should be produced and direct enterprises to produce those goods.

## Market economy

- A market economy is an economic system in which the production and distribution of goods and services take place through the mechanism of free markets guided by a free price system.

## **Planned economy**

- In such an economy, the planners decide what should be produced and direct enterprises to produce those goods.

## **Market economy**

- Businesses and consumers decide of their own volition what they will purchase and produce.

# COMPARATIVE ANALYSIS OF MARKET AND PLANNED ECONOMY

## **Planned economy**

- production, distribution, and pricing decisions are made by the government furthering some overarching macroeconomic plan.

## **Market economy**

- production, distribution, and pricing decisions are made by the private owner of the factors of production based upon their own interests

## **Planned economy**

- a central government decides what will be produced and in what quantities.

## **Market economy**

- producer gets to decide what to produce, how much to produce, what to charge to customers for those goods, what to pay employees, etc. These decisions in a free-market economy are influenced by the pressures of competition, supply, and demand.

# ADVANTAGES

## Planned economy

- Everyone in society receives enough goods and services to enjoy a basic standard of living
- Nations do not waste resources duplicating production
- The state can use its control of the economy to divert resources to wherever it wants
- Everyone receives a good education, proper health care, transport is available

## Market economy

- Supply and demand control what is sold.
- consumer's freedom of choice
- freedom of entrepreneurial choice
- availability competition

# DISADVANTAGES

## Planned economy

- There is no incentive for individuals to work hard
- Any profits that are made are paid to the government
- Citizens can't start their own businesses and so new ideas rarely come forward
- Industries can be very inefficient

## Market economy

- A big difference in income and living standards of citizens
- Problems of social injustice
- Unemployment
- Instability of the economy
- Payment for most services