Topic:-

Modern World Economic System

**Economics System:-**

Economic systems are the means by which countries and governments distribute resources and trade goods and services. They are used to control the five factors of production, including: labor, capital, entrepreneurs, physical resources and information resources. In everyday terms, these production factors involve the employees and money a company has at its disposal, as well as access to entrepreneurs, the people who want to run companies or start their own businesses. The physical materials and resources needed to run a business, along with the data and knowledge companies use to be successful, are also factors in production. Different economic systems view the use of these factors in different ways.

1. **Traditional Economic System**

A traditional economic system is the best place to start because it is, quite literally, the most traditional and ancient type of economy in the world. There are certain elements of a traditional economy that those in more advanced economies, such as Mixed, would like to see return to prominence.

**Where Tradition Is Cherished:** Traditional economies still produce products and services that are a direct result of their beliefs, customs, traditions, religions, etc. Vast portions of the world still function under a traditional economic system. These areas tend to be rural, second- or third-world, and closely tied to the land, usually through farming. However, there is an increasingly small population of nomadic peoples, and while their economies are certainly traditional, they often interact with other economies in order to sell, trade, barter, etc.

**2. Command Economic System**

A planned economy is one in which the government decides how the factors of production are used. For example, the government determines who owns the businesses, who buys and sells to whom, and who makes the ultimate decisions regarding businesses, including who works for them. Communism is a primary example of a planned economy in that the government makes all business decisions and handles all factors of production.

In terms of economic advancement, the command economic system is the next step up from a traditional economy. This by no means indicates that it is fairer or an exact improvement; there are many things fundamentally wrong with a command economy.

**Centralized Control:** The most notable feature of a command economy is that a large part of the economic system is controlled by a centralized power; often, a federal government. This kind of economy tends to develop when a country finds itself in possession of a very large amount of valuable resources. The government then steps in and regulates the resources. Often the government will own everything involved in the industrial process, from the equipment to the facilities.

**3. Market Economic System**

A market economy is very similar to a free market. The government does not control vital resources, valuable goods or any other major segment of the economy. In this way, organizations run by the people determine how the economy runs, how supply is generated, what demands are necessary, etc.

**Capitalism And Socialism:** No truly free market economy exists in the world. For example, while America is a capitalist nation, our government still regulates (or attempts to regulate) fair trade, government programs, moral business, monopolies, etc. The advantage to capitalism is you can have an explosive economy that is very well controlled and relatively safe. This would be contrasted to socialism, in which the government controls and owns the most profitable and vital industries but allows the rest of the market to operate freely; that is, price is allowed to fluctuate freely based on supply and demand.

**4. Mixed Economic System**

A mixed economic system also known as a Dual Economy, is just like it sounds a combination of economic systems, but it primarily refers to a mixture of a market and command economy for obvious reasons, a traditional economy does not typically mix well. As you can imagine, many variations exist, with some mixed economies being primarily free markets and others being strongly controlled by the government.

**Every economic system looks at three or four basic questions:**

What to produce.

How to produce and how much.

Who receives production’s output.

How change is going to be effected and accommodated.

**Market economy:** here prices are determined by levels of supply and demand, instead of central and or local government. Market forces determine what is produced, how much is produced, how it is distributed, plus the prices of goods and services.

All decisions regarding investment and salaries are also driven by market forces in a market economy.

In a market economy, the government plays a minor role and only lays down the rules so that businesses can thrive. An outdated word for this type of economy is Capitalism.

**Planned economy:** all decisions regarding production, distribution, salaries, investment and prices are made by a central authority – usually the government.

In a planned economy, also known as a centralized economy, controlled economy or command economy, central government has planners who make all the decisions.

According to economists, the most fundamental difference between a market and planned economy is the existence of private property, i.e. it exists in the free market and does not in the command economy.

**Mixed Economy:** market economies sometimes get into trouble, at which point the government feels compelled to intervene. Sometimes, when lawmakers believe some players are being exploited unfairly, or the level playing field for business is under threat, the government may become involved.

Similarly, the leaders of a command economy may decide that more investment is required, and the only way to accomplish this is by allowing more freedom.

The moment the government of a command economy loosens its grip, or that of a market economy begins to intervene, they integrate some aspects of the other. When this occurs, the result is a kind of hybrid system – a mixed economy.