

Grade 8
Economics
Market Economic System

A market economy is a system where the laws of supply and those of demand direct the production of goods and services. It is also called as capitalism.

Characteristics of a Market Economy/Capitalism:

Private Property

Most goods and services are privately-owned. The owners can make legally binding contracts to buy, sell, or lease their property. Their assets give them the right to profit from ownership.

Freedom of Choice

Owners are free to produce, sell, and purchase goods and services in a competitive market. They only have two constraints. First is the price at which they are willing to buy or sell. Second is the amount of capital they have.

Motive of Self-Interest

Everyone is carrying out production or consumption activity to gain maximum profit for himself. Producers will only produce the products which they deem are profitable irrespective of they are good or bad.

Competition

The force of competitive pressure keeps prices low. It also ensures that society provides goods and services most efficiently. As soon as demand increases for a particular item, prices rise. Competitors see they can enhance their profit by producing it, adding to supply. That lowers prices to a level where only the best competitors remain. This competitive pressure also applies to workers and consumers.

System of Markets and Prices

A market economy relies on an efficient market in which to sell goods and services. That's where all buyers and sellers have equal access to the same information. Price changes are pure reflections of the laws of supply and demand.

Limited Government/Laissez faire system:

The role of government is limited only to ensure that the markets are open and working. For example, it is in charge of national defense to protect the markets. It also makes sure that everyone has equal access to the markets. The government penalizes monopolies that restrict competition. It makes sure no one is manipulating the markets and that everyone has equal access to information.

Advantages of a Market Economy

Since a market economy allows the free interplay of supply and demand, it ensures that the most desired goods and services are produced. Consumers are willing to pay the highest price for the things they want the most. Businesses will only create those things that return a profit.

Second, goods and services are produced in the most efficient way possible. The most productive companies will earn more than less productive ones.

Third, it rewards innovation. Creative new products will meet the needs of consumers in better ways than existing goods and services. These cutting-edge technologies will spread to other competitors so they, too, can be more profitable.

Fourth, the most successful businesses invest in other top-notch companies. That gives them a leg up and leads to increased quality of production.

Disadvantages of a Market Economy

The key mechanism of a market economy is competition. As a result, it has no system to care for those who are at an inherent competitive disadvantage. That includes the elderly, children, and people with mental or physical disabilities.

Second, the caretakers of those people are at a disadvantage. Their energies and skills go toward caretaking, not competing. Many of these people might become contributors to the economy's overall comparative advantage if they weren't caretakers.

That leads to the third disadvantage. The human resources of society may not be optimized. For example, a child who might otherwise discover the cure for cancer might instead work at McDonald's to support her low-income family.

Fourth, society reflects the values of the winners in the market economy. A market economy may produce private jets for some while others starve and are homeless. A society based on a pure market economy must decide whether it's in its larger self-interest to care for the vulnerable

Key Points:

- A market economy functions under the laws of supply and demand.
- It is characterized by private ownership, freedom of choice, self-interest, optimized buying and selling platforms, competition, and limited government intervention.
- Competition drives the market economy as it optimizes efficiency and innovation.
- Market economies marginalize those that are unable to compete, contributing to income inequality.