

# Lecture 1. Introduction to the Subject

## What is the modern economy?

Modern economies are economy in which there are economic activities between domestic community and outside. People or business can trade goods or services with other business or people in international communities and funds can flow as investment across borders.

## What are the features of a modern economy?

A large proportion of the community's resources are diverted from current consumption to the production of tools, machinery and equipment. There is capital formation on a large scale making provision for the future. Another salient feature of a modern economy is the extensive use of money.

## Which factor economy is modern economy?

Modern economy consists of mainly five factors which are:

- ❖ Human resources
- ❖ Natural resources
- ❖ Capital formation
- ❖ Digitalization
- ❖ IT Applications

## What are the 3 main modern economic systems?

There are three main types of economic systems: command, market, and mixed. We will briefly describe each of these three types.

### Command Economy

In a command economy, what goods and services are produced, how they are produced, and for whom they are produced are all questions answered by government planning. The government makes economic decisions for the good of society. In a pure command economy, all resources are owned by the government, so the government can direct them to produce what is best for society as a whole, rather than what might be in the interests of private individuals. So government owned the land, government owned the businesses, and government even told people what their occupations would be.

Historically, command economies were associated with a political system known as communism, where the goals of society as a whole were given priority over individual goals.

The Soviet Union until its breakup in the late 1980s was an excellent example of a command economy. Cuba and North Korea are good examples in today's world of command economies.

One of the biggest changes in the world in the last 15-20 years has been the fall of communism and command economies. The number of command economies in the world has fallen dramatically in the last decade.

While the theoretical objective of a command economy is to use economic resources for the good of the whole society, as a practical matter command economies didn't do that very well. In a command economy, government-owned producers are not allowed to go out of business, so they had little incentive to produce quality products at low cost. Since private individuals could not own means of production, they had no incentive to search for better ways of serving consumers' wants and desires. Rather than growing and prospering, command economies typically were stagnant.

## **Market Economy**

In a market economy, resources are owned by private individuals. The goods and services that are produced are not determined by the government. Rather, production is determined by businesses responding to the wants and desires of consumers. Consumers determine what will be produced.

Adam Smith is often regarded as the first economist. In his famous book published in 1776, *An Inquiry into the Nature and Causes of the Wealth of Nations* (often referred to simply as *The Wealth of Nations*), Smith described the advantages of a market economy. Smith said that a market economy is controlled as if by an invisible hand – producers produce the things that consumers want without government telling them what to do. The invisible hand expression suggests that if the economy allows people to pursue their own individual interests, the result will be the best for society as a whole. Producers who want to make as much profit as they can will have to produce the things that consumers want. Profit thus is an incentive for producers to satisfy consumers wants and desires.

Critics of a market economy argue that while it might do a good job of answering the first two fundamental questions (What to produce, How to produce), it does not do so well answering the third question (For whom to produce). Critics argue that producers satisfy the wants and desires of consumers who have the money to express those wants and desires, while those people without money are not served. In a market economy, critics say, there may be a wide gap between rich and poor.

## **Mixed Economy**

A mixed economy is a blend of market and command economies. In a mixed economy some parts or sectors of the economy are left to private ownership (market) while in other sectors there is substantial government ownership or government-directed production (command). In a mixed economy, government intervenes in those sectors where private ownership is believed to be not in the best interests of society as a whole. For example, in a mixed economy the government might control the production and distribution of health care (as in Great Britain and Sweden). Mixed economies are relatively common in Western Europe, in countries such as France, Sweden, and Italy.

### **How many factors are there in modern economy?**

Economists divide the factors of production into four categories: land, labor, capital, and entrepreneurship.

### **Which economic system is best?**

Capitalism is the greatest economic system because it has numerous benefits and creates multiple opportunities for individuals in society. Some of these benefits include producing wealth and innovation, improving the lives of individuals, and giving power to the people.

### **What are the two parts of modern economics?**

Little-picture microeconomics is concerned with how supply and demand interact in individual markets for goods and services. In macroeconomics, the subject is typically a nation—how all markets interact to generate big phenomena that economists call aggregate variables.

### **What are the modern economic theories?**

Modern economic theory tends to separate itself from classical economic theory by looking at more than just the source of production and the invisible hand theory. Modern economics also looks at items such as the role of demand, money supply, and its effect on growth or monetarism and free trade.

### **What are the 5 main elements of the 2030 Agenda?**

At the heart of the 2030 Agenda are five critical dimensions: people, prosperity, planet, partnership and peace, also known as the 5Ps. The 5 P's – Product, Price, Promotion, Place, and People – are a framework that helps guide marketing strategies and keep marketers focused on the right things.