

AS Microeconomics

Markets and market failure


1.1 Economic methodology and the economic problem

The central purpose of economic activity is the production of goods and services to satisfy needs and wants, therefore improving economic welfare.



An **economy** is a system which attempts to balance available resources with the needs and wants of society.

3 key economic questions



WHAT
to produce

How to use the available resources to produce a combination of goods and services to meet the needs and wants of society.



HOW
to produce

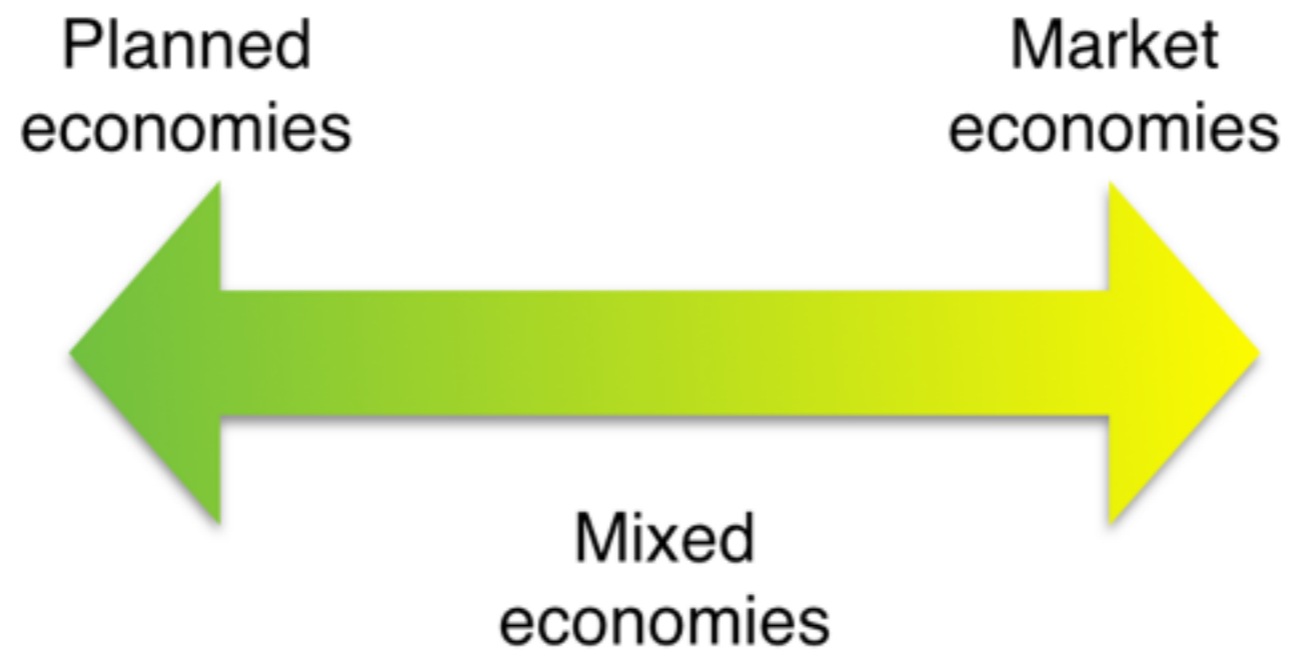
How best to employ the available resources to produce goods and services.



FOR WHOM
to produce

How will the economy decide who will consume each good or service that is produced?

Types of economies



Market economies are based on **private enterprise**; resources are largely owned by private individuals and groups.

What goods and services are produced is determined by what society demands and wages are a reflection of the contribution each individual makes to society.



In a **planned economy**, the government is the main owner of resources. It decides what goods and services will be produced and what prices will be charged for them. The government also decides what methods of production will be used and how much workers will be paid. Necessities like healthcare and education are provided for free.



Planned
economies

Market
economies



Mixed
economies

"Capitalism is the astounding belief that the most wickedest of men, will do the most wickedest of things for the greatest good of everyone."

John Maynard Keynes

“It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own interest”

Adam Smith

Activity

Research the advantages and disadvantages of planned and market economies.

Use your notes to answer the following questions:

- a. Imagine that the UK had a totally free market system i.e. all services were left to private firms. What problems might occur?
- b. Why may a businessman or woman be happier in a free market system?
- c. Why may the poor be happier in a command system?
- d. Which system is i) more efficient ii) more equal?



Bloomberg