

What are the characteristics of a market economy and a centrally planned economy? Explain three advantages and three disadvantages of the market economy.

A market economy is mainly characterized by the fact that the decisions are made by the buyers and the sellers not the government. The resources are privately owned by individuals and they make the decision without intervention. A market economy is mainly ruled by supply and demand, meaning that services and/or goods that are in high demand will be in short supply and be high in cost.

A centrally planned economy is an economy where the government is in charge of making the decisions, thus it can effectively decide how the country's economy is to evolve and decides the pricing of goods and services what to produce and how to produce it, however this also means that citizens are not encouraged to seek gain and do not have any incentive to work harder and the economy isn't capable of massive growth unlike a market economy. As a result it is inefficient and shortages and/or surpluses often happen. An example of a centrally planned economy is the Soviet Union.

Advantages of a market economy:

1. Those who privately own a business and/or good are free to decide on how to manage their resources. Thus they are encouraged by the incentive of profit in order to work harder and achieve a better quality of life. (freedom of choice)
2. Since property is privately owned those who own it can profit off of it by allowing them to make legally binding contracts to sell, lease, buy or rent their property. (private property)
3. There is competition present meaning that goods and services are balanced by competitors as there is no single entity that owns the service or good without competition and as a result they have to keep prices fair.

Disadvantages of a market economy:

1. There are many people who are put at a disadvantage such as the elderly and the children due to natural selection.
2. It is a system that generates greed as many people are only incentivised by profit.
3. It is an unfair system as the rich tend to get richer while the poor get poorer.