- Hybrid systems: Mixed economy

THE MARKET SYSTEM

- Composed of a series of markets where goods and services, money and information are exchanged and market prices determined.
- Sellers/Firms/Producers/Suppliers are profit-maximising and Buyers/Consumers are utility-maximising.
- Private property
- Consumer sovereignty

FUNCTIONS OF MARKETS/PRICE SYSTEM

- Signalling – channelling resources into different activities through price changes.
- Rationing – distributing resources and goods to the highest bidder.
- Incentives – market participants have selfish motives

COMMAND ECONOMY

- Resources are allocated through a centralised agency or state or government.
- Price and wage controls.
- Limited private property
- Bureaucracy

TRADITIONAL ECONOMY

- Resources allocated through customs, habits and tradition.
- Stable social order.
- Primitive means and methods of production.

HYBRID SYSTEMS: Mixed economy

- These economies have a twin allocative mechanism: the market and command.
- Solves the problem of market failure and government failure.

THE METHODOLOGY OF ECONOMICS

- DEDUCTION – arguing from the general to the specific and from principles to facts. Uses logical reasoning and the forming and testing of hypotheses.
- INDUCTION – arguing from the specific to the general.
- POSITIVE ANALYSIS – testable, objective and scientific statements