

Free Market economy – Private property (factors of production owned by the people) An economy where all economic decisions are taken by individual households and firms and with no government intervention.

- Freedom of choice and enterprise (let people buy what they want and let firms produce what they want)
- Self interest
- Competition (quality rises, prices decrease, consumer benefits and acts as an incentive for efficiency)
- A price system (market based price which increase allocative efficiency)
- Small role of government (ex. national security)
- Can respond quickly to changing conditions of demand and supply

Free Market economy leads firms to be more efficient by combining their factors of production resulting in a higher profit. The more efficient workers work, the more likely wages are higher.

Critique of the Free Market:

- Income and wealth inequality
- Monopolies
- lack of information
- persuasion rather than responding to customers' needs and wants
- no public goods
- under-provision and under-consumption of merit goods
- over-provision and over-consumption of demerit goods
- negative externalities (example pollution)
- economic instability
- Power and property may be unequally distributed
- Lack of competition and high profits resulting in inefficiency
- Consumers and firms may not have full information about the costs and benefits

Planned economy - communism where all economic decisions are taken by the government.

Plans the allocation of resources (what, how to produce). Land and capital are collectively owned. It plans the allocation of resources between current consumption and investment for the future. It plans the output of each industry and firm, the techniques that will be used, and the labour and other resources required by each industry and firm.

- lack of investment
- No incentive