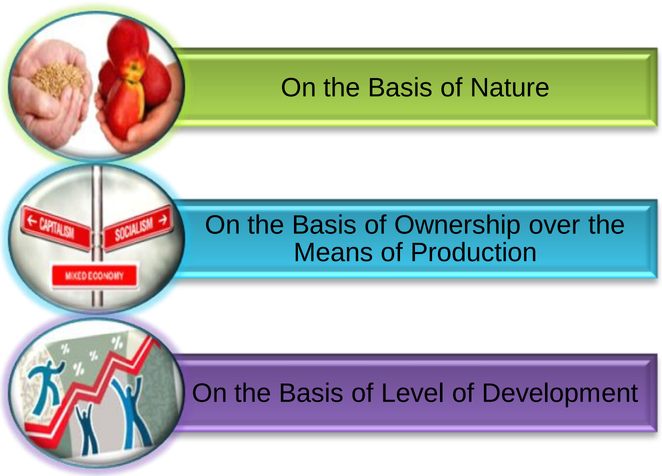
Meaning and Types of Economies

An economy is a system which provides people with goods and services and directly or indirectly satisfies their wants.



Classification on the Basis of Nature

On the basis of their nature, economies are classified into the following categories:

- Simple or complex economy
- Closed or open economy
- Planned or unplanned economy
- Agricultural or industrial economy

Simple or Complex Economy

- A simple economy refers to a system wherein people produce simple goods in limited numbers/quantities for the satisfaction of their wants. The barter system of exchange prevails in this economy. These types of economies existed in Indian villages in olden times.
- A complex economy refers to a system wherein several kinds of goods are produced in large quantities. The process of production in these economies is highly complex and advanced. Money is widely used as a medium of exchange. This economy came into existence in the Post-Industrial Revolution period.

Simple Economy	Complex Economy
○ Only simple goods are produced to satisfy basic human wants.	○ Variety of goods are produced and in large quantities.
○ Techniques used in the production process are simple.	○ Techniques used in the production are complex and highly advanced.
○ Barter system is used for buying and selling of goods.	○ Money is used as a medium of exchange of goods and services.
○ Wants are limited as people live in isolation and are self-sufficient.	○ Goods are produced in large quantities not only for self-use but also to be supplied and sold to distant markets.
○ It is a self-reliant economy.	○ It is a modern economy.

Closed or Open Economy

- A closed economy is an economy which has no economic transactions with any other country.
- An open economy is an economy which is involved in the process of production within its own country and participates in the production process anywhere in the world.

Closed Economy	Open Economy
○ Does not have economic relations with the rest of the world.	○ Has economic relations with other countries.
○ Activities taking place outside the territory do not affect economic activities.	○ Economic activities of such an economy are affected by international fluctuations.
○ There is no difference between national income and domestic income.	○ The size of national income may be greater or smaller than domestic income.
○ It is an imaginary economy.	○ It is a realistic economy.

Planned or Unplanned Economy

- A planned economy is also known as a controlled economy. In this kind of economy, the government/state has full control over all the economic activities/matters of the country.
- An unplanned economy is one in which economic activities and central problems are determined by the free play of market forces of demand and supply.

Agricultural or Industrial Economy

- Agriculture is the main occupation in this economy. Agriculture constitutes a large share of the national income. Traditional techniques of production are used in this economy. Basic infrastructural facilities are absent. Examples of this economy: Brazil, Pakistan, Myanmar, Sri Lanka
- Industrial Economy: Industry and trade are the main occupations in this economy. Agricultural share is less in national income. Modern and complex techniques of production are used in this economy. Infrastructural facilitates are well provided for in this economy. Examples of this economy: United States of America, United Kingdom, Japan, Germany

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○ Examples of this economy: Brazil, Pakistan, Myanmar, Sri Lanka	○ Examples of this economy: United States of America, United Kingdom, Japan, Germany

Classification on the Basis of Ownership over the Means of Production

On the basis of ownership over the means of production, economies are classified into the following categories:

- Capitalist economy
- Socialist economy
- Mixed economy

Capitalist Economy

It refers to a type of economy wherein private owners own the means of production such as land and capital. There is no kind of interference from the government in the economic activities of the country. Main features of a capitalist economy:

- Individuals are free to own and control economic resources. Everyone is independent to choose his/her own business, profession and occupation.
- The people's economic activities may or may not be controlled by the government.
- Prices of the commodities are determined by the interaction of demand and supply. The government does not interfere in the determination of the prices.
- Profit and earning more income is the purpose of all economic activities.
- Individuals have the right to earn income, to acquire assets and to retain them.
- Consumer is sovereign in a capitalist economy.
- Inequality of income and class struggles are important features of this economy.

Socialist Economy

It refers to a type of economy wherein all the economic activities are controlled and regulated by a community or government so as to ensure welfare, achievements and equal opportunities to all the people of the country. Main features of a socialist economy:

- Economic resources are owned by society and are used in the public interest.
- All important decisions are taken by the government.
- Individuals in a socialist economy do not have the right to own private properties.

- The economy is managed and controlled by a ‘Planning Commission’, which is the central authority.
- There is less inequality of income in this economy. Income is distributed among individuals on the basis of their needs and efficiency.
- Price of goods and services is determined by the government.
- Public interest is supreme while taking decisions about production, consumption and investment.

Mixed Economy

It refers to a type of economy wherein some important part of production is undertaken by the government, while some is left to private owners. Thus, it is a blend of both capitalist and socialist economies. Main features of a mixed economy:

- Certain economic activities are fully owned and controlled by the government. All economic activities are not allowed by the government.
- Private and public sectors co-exist in the economy.
- All the basic industries such as railways, electricity, posts and telegraphs, defence production, atomic energy are in the public sector. Industries dealing with consumer goods are in the private sector.
- Mixed economy reduces inequality of income.
- Presence of the private sector, right to own property and law of inheritance encourage individuals to earn more, save more, invest more, acquire more assets and become richer.

Classification on the Basis of Level of Development

On the basis of level of economic development, economies are classified into the following categories:

- Developed economy
- Underdeveloped economy

Developed Economy

An economy which enjoys a high level of per capita income and a high standard of living is known as a developed economy. Main features of a developed economy:

- Have a high level of per capita income or output.
- People enjoy a higher quality standard of living.
- Contributions of industrial and service sectors are very high.
- Available resources are fully exploited and used.
- Have a high degree of technical development.
- Do not have a severe problem of unemployment.
- Slow growth rate of population.
- A higher level of capital formation and gross domestic savings.
- A high ratio of urban population.
- Maximum people live above the poverty line.

Underdeveloped Economy

An underdeveloped economy is one in which the per capita income and the standard of living of the people are low. According to the World Development Report 2011, economies having per capita income of $995 or less are considered underdeveloped economies. They are also known as developing economies as they are passing through a phase of development and growth. Important characteristics of an underdeveloped economy:

- The per capita income in an underdeveloped economy is low, and therefore, majority of the population live below the poverty line. Consequently, people in this economy live in miserable conditions.
- In most underdeveloped economies, the population growth rate is very high as compared to the other economies. Also, because of improved medical facilities, the mortality rate among all the sections of society is reduced. As a result, as the population increases, the consumption of the limited resources also increases, resulting in less saving of resources and a slower growth rate.
- For many underdeveloped economies enriched with large and sufficient resources, most of these resources remain underutilised because of lack of skilled personnel and technology.
- Underdeveloped economies suffer from widespread unemployment. Because of various reasons, such as rapid population growth and lack of investment, unemployment prevails in such an economy. It is estimated that underemployment and unemployment together constitute nearly 30% of the workforce of an underdeveloped economy.
- Inequality in the distribution of income is prevalent in these economies. As a large part of the national income goes to smaller sections of society, the larger sections of society have to be satisfied with whatever part of income is available to them. According to the Human Development Index, the top 20% of India's population receives 45.3% of the national income, while the poorest 20% of the population receives 8.1% of the national income.

Developed Economy	Underdeveloped Economy
○ A high per capita income leads to a higher standard of living.	○ A low per capita income leads to a low standard of living.
○ Incidence of poverty is low.	○ Incidence of poverty is high.
○ Industrial and service sectors are predominant.	○ Agricultural or the primary sector is predominant.
○ Resources are properly used and highly advanced capital-intensive techniques are used in production. Therefore, productivity is high.	○ Resources are under used and traditional techniques are used in production. Therefore, productivity is low.
○ Gap between the rich and the poor is narrow.	○ Gap between the rich and the poor is wide.