

For XAT , CMAT , SNAP , MAT , IIFT Exam

INTRODUCTION-ECONOMY

- The term economy has been defined by A. J. Brown as, “A system by which people earn their living.” J. R. Hicks defined as, “An economy is a cooperation of producers and workers to make goods and services that satisfy the wants of the consumers.”
- The subject Economics is classified into two branches, namely, Micro Economics and Macro Economics.
- The terms ‘micro economics’ and ‘macro economics’ were first used in economics by Norwegian economist Ragner Frisch in 1933
- John Maynard Keynes is considered the father of macroeconomics

Macro-economics

- The branch of economics that studies the behavior and performance of an economy as a whole
- It is the study of aggregates such as national output, inflation, unemployment and taxes
- **The General Theory of Employment, Interest and Money** published by Keynes is the basis of modern macro-economics.

Micro-economics

- Micro Economics is the study of the economic actions of individual units say households, firms or industries.

Economic System

- Economic System refers to the manner in which individuals and institutions are connected together to carry out economic activities in a particular area. It is the methodology of doing economic activities to meet the needs of the society
- There are three major types of economic systems. They are:
 1. Capitalistic Economy
 2. Socialistic Economy
 3. Mixed Economy

Capitalistic Economy

- Adam Smith is the ‘Father of Capitalism’.
- Capitalistic economy is also termed as a free economy or market economy where the role of the government is minimum and market determines the economic activities.
- The means of production in a capitalistic economy are privately owned. Manufacturers produce goods and services with profit motive. The private individual has the freedom to undertake any occupation and develop any skill.
- The USA, Germany, Australia and Japan are the best examples for capitalistic economies

Socialistic Economy

- The Father of Socialism is Karl Marx.
- Socialism is defined as a way of organizing a society in which major industries are owned and controlled by the government, A Socialistic economy is also known as ‘Planned Economy’ or ‘Command Economy’
- In a socialistic economy, all the resources are owned and operated by the government. Public welfare is the main motive behind all economic activities
- It aims at equality in the distribution of income and wealth and equal opportunity for all
- China, Vietnam, Poland and Cuba are the examples of socialist economies. But, now there are no absolutely socialist economies.

Mixed Economy

- In a mixed economy system both private and public sectors co-exist and work together towards economic development
- In these economies, resources are owned by individuals and the government.
- Examples of mixed economy: India, England, France and Brazil