




# Economic Environment



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- Economic environment refers to all those economic factors which have a bearing on the functioning of business unit.


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- Business depends on the economic environment for all the needed inputs. It also depends on the economic environment to sell the finished goods. Naturally, the dependence of business on the economic environment is total and it is not surprising because, as it is rightly said, business is one unit of the total economy.


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- **The concept of welfare state has become very common now. Welfare state is a modification of capitalism that provides for state intervention when certain deficiencies occur.**



### Essentials of Capitalism

1) **The Right of Private Property** : The various means of production are under the private ownership of individuals. The private individuals can hold, use or sell them as they like. Right of inheritance by the sons and daughters or other legal heirs is implicit in this right.



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- 2) Freedom of Enterprise : There is no restriction on the right of the individual to engage in any business or enterprise for which he has the necessary means .


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- 3) Profit Motive : Profit motive is at the heart of a capitalistic system. It is profit, not any altruistic feelings, which makes an entrepreneur invest in any economic activity.

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- 4) Competition : Competition exists among producers, sellers, buyers, job seekers, employers, investors etc.

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- 5) Consumers Sovereignty : In a free market economy, wishes and preferences of the consumers direct the economic activity. The consumer occupies a key role in the system.




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- 6) Inequalities of Income - Unequal distribution of property among individuals leads to unequal distribution of incomes. There is a wide gap between the incomes of the rich and the poor.






**Under socialism, the tools of production are to be organized, managed and owned by the government.**


- 1) It is based on social and economic planning, collective ownership of factors of production, social welfare and cooperation.
- 2) Socialist economy requires a central authority to determine the goals of society and coordinate the community's efforts to attain those goals.


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- 3) Socialist economy is a centrally planned economy, with the central authority planning the allocation of resources so as to attain the goals and objectives of the society.
  - 4) Equity or equitable distribution of incomes is central to socialism .

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- 5) Social welfare rather than private profit characterizes a socialist society's goals.


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- Salient Features of Mixed Economy :  
Having described the two extremes of capitalism and socialism, it is now possible to define a mixed economy in functional terms. A mixed economy is characterized by :

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- I) a balance between the market economy and the planning mechanism;
  - ii) a clear demarcation of the boundaries of public sector and private sector so that 'the core sector and strategic sectors are invariably in the public sector;
  - iii) while profit motive influences decision-making in the private sector, the economic viability criteria for investment decisions in the public sector is based on social cost-benefit analysis

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- iv) the ownership of means of production as between public sector, private sector, joint sector and cooperative sector is so decided that there is a balance between personal and social incentives and sectional and general interests;
  - v) there is occupational freedom and freedom of consumers' choice;

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- vi) the government intervenes to prevent undue concentration of economic power, and monopolistic and restrictive trade practices;
  - vii) the government endeavors to take care of the consumption levels and objectives of the weaker sections of the society through public distribution



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- viii) social objectives of equity, employment, balanced regional development, family welfare are emphasized;
  - ix) the doctrinaire rigidities of socialism are avoided and a pragmatic approach to decision-making for promoting economic growth is usually adopted; and
  - x) mixed economy is not merely an economic concept and the rights of the individual are respected and protected subject only to the requirements of public law and order and morality



Thank You