

Department of Commerce (CA)

BUSINESS ENVIRONMENT 18MCC130

Semester 1

I M. Com. (CA)

UNIT 2

Economic Systems: Capitalism, Socialism
and mixed economy - Economic roles of
Government sectors in Indian Economy -
Public, private, joint and co-operative
sectors - Privatisation - ways - Reaction -
Benefits - Obstacles - Privatisation in India

Reference Book

BUSINESS ENVIRONMENT

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Economic system

It is a system of production resource allocation, distribution of goods and services within a society or a given geographic area.

Types of economic system

- 1) Capitalism
- 2) Socialism and
- 3) Mixed Economy

Capitalism

Meaning: Under capitalism, all farms, factories and other means of production are the property private individuals firms.

Main features of Capitalism

A: Capitalistic Economy has the following features.

1. Private property and freedom of ownership
2. Right of private property
3. Price mechanism
4. Profit motive
5. Competition and co-operation goes side by side
6. Freedom of enterprise, occupation and control
7. Consumer Sovereignty
8. It arises class conflict
9. Leading role of joint stock company
10. Important role of entrepreneur

Merits:

1. Production according to the needs and wants of consumers
2. Higher rate of capital formation and more economic welfare of society
3. Higher rate of economic growth
4. There is complete freedom of choice in capitalist economy
5. Optimum utilisation of resources available
6. Efficient production of goods and services
7. Varieties of consumer goods

8. It encourages entrepreneurs to take risks and adopt bad policies.
9. It provides the best atmosphere for inventories
10. It provides a good deal of flexibility
11. In capitalism there is no need of inducement or punishment for good and bad production

Demerits:

1. Inequality of distribution of wealth and income
2. Class struggle as inevitable in capitalist economy
3. Social cost are very high
4. Unnecessary multiplicity and too much of competition
5. Instability of the capital economy
6. Unemployment and under-employment
7. Working class does not have adequate social security
8. Slow and unbalanced growth
9. No bargaining capacity of labourers hence exploitation
10. Growth of monopolies with their evils

Socialism

Socialism refers to the government ownership of the means of production, planning by the Government so as to ensure welfare and equal opportunity to the people in the society.

Features

1. Collective ownership
2. Economic, social and political equality
3. Economic planning
4. No Competition
5. Positive role of Government
6. work and wages according to ability and needs
7. Maximum social welfare

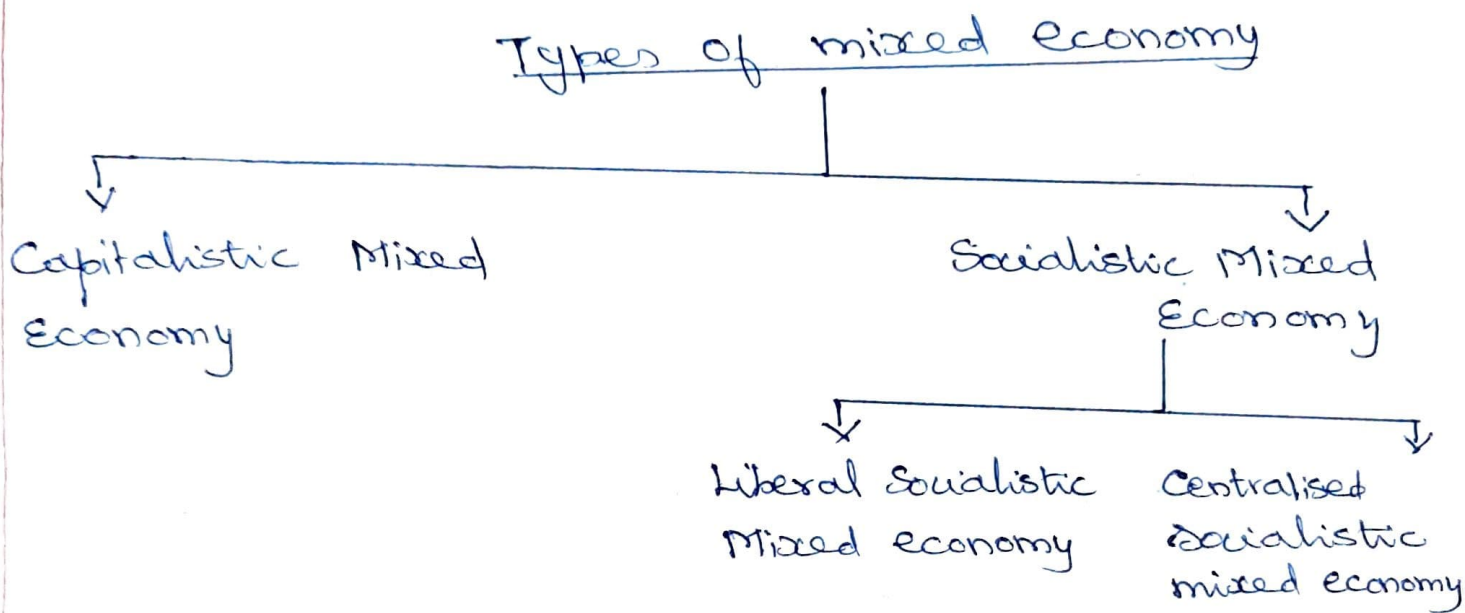
Mixed Economy

It is golden mixture of capitalism and socialism. Under this system there is freedom of economic activities and government interferences for the social welfare.

Features of mixed economy

- 1) Co-existence of private public sector
- 2) Personal freedom

- 3) Private property is allowed
- 4) Economic Planning
- 5) Price mechanism and controlled price
- 6) Profit motive and social welfare
- 7) check on economic inequalities
- 8) Control of monopoly power



Economic Roles of Indian Economy

- ① Generation of income
- ② Capital formation
- ③ Creation of employment opportunities
- ④ Provision of infrastructure facilities
- ⑤ Strong industrial base
- ⑥ Export promotion
- ⑦ Import substitution

- ⑬ Contribution to Central exchequer
- ⑭ checking centralisation of income and wealth
- ⑮ Removal of regional imbalances
- ⑯ Promotion of Research and Development

Objectives

- ① To promote rapid economic development
- ② To generate financial resources for development
- ③ To promote redistribution of income and wealth
- ④ To create employment opportunities
- ⑤ To promote balanced regional growth
- ⑥ To encourage the development of small scale and ancillary industries
- ⑦ To improve export
- ⑧ To explore import substitution

PUBLIC SECTOR ENTERPRISE

Public enterprises are organisation which owned by public authorities including Central State or local authorities to the extent of 50% or more.

Objectives:

- ① To provide the necessary infrastructure
- ② To fill the gaps left by private sector
- ③ To protect consumer interests
- ④ To avoid monopolies
- ⑤ To promote public welfare
- ⑥ To reduce income inequalities
- ⑦ To utilise natural resources in an optimum way
- ⑧ To develop backward areas
- ⑨ To create employment opportunities
- ⑩ To ensure self reliance
- ⑪ To undertake socially important projects
- ⑫ To utilise local resources

Problems faced by Public Sector Enterprises

- ① Lack of autonomy
- ② Delayed decisions
- ③ unplanned production
- ④ no clear cut price policy
- ⑤ High overheads
- ⑥ Overstaffing
- ⑦ Poor productivity
- ⑧ Lack of proper planning
- ⑨ Low capacity utilisation
- ⑩ Nepotism
- ⑪ Corruption
- ⑫ Poor work ethic

Co-operative Sector

Cooperation is a form of organisation wherein persons voluntarily associate together as human beings on the basis of equality for the promotion of the economic interests of themselves

Features

- ① Separate legal entity
- ② voluntary association
- ③ Democratic setup
- ④ welfare motive
- ⑤ Self-help
- ⑥ Common-economic objectives
- ⑦ Compulsory registration
- ⑧ Low membership fees
- ⑨ One member one vote
- ⑩ Non-transferability of shares
- ⑪ Equitable distribution of surplus
- ⑫ Compulsory registration

Principles:

- ① One member one vote
- ② Open membership
- ③ cash transactions
- ④ Equitable profit distribution

Advantages

- ① Voluntary Organisation
- ② Ease formation
- ③ Democracy
- ④ Equitable distribution of surplus
- ⑤ Limited liability
- ⑥ Stable existence
- ⑦ Each for all and all for each
- ⑧ Government Support
- ⑨ Low taxes
- ⑩ Rural Credit
- ⑪ Role in agricultural progress
- ⑫ Encourages Savings
- ⑬ Fair price and good quality
- ⑭ Social benefits

Disadvantages

- ① Limited funds
- ② Imposed by Government
- ③ Inadequate rural credit
- ④ Lack of managerial skill
- ⑤ Government regulation
- ⑥ Lack of secrecy
- ⑦ Limited scope
- ⑧ Lack of accountability
- ⑨ Lack of motivation
- ⑩ Low public confidence

Requisites:

- ① There should be at least 10 members
- ② It should have its own approved bye-laws
- ③ It should have raised minimum capital

JOINT STOCK COMPANY

A company is an artificial person created by law having a separate entity with a perpetual succession and a common seal.

Features:

- ① Incorporation
- ② Artificial legal person
- ③ Distinct legal person
- ④ Common seal
- ⑤ Perpetual Succession
- ⑥ Limited liability
- ⑦ Number of members
- ⑧ Separation of ownership and management
- ⑨ Transferability of shares
- ⑩ Financial resources

Advantages

- ① Large capital
- ② Limited liability
- ③ Transferability of shares
- ④ Perpetual Succession
- ⑤ Risk bearing capacity
- ⑥ Economic development
- ⑦ Public confidence
- ⑧ Social benefits

Disadvantages

- ① Costly and difficult to form
- ② Dishonest management
- ③ Management Oligarchy
- ④ Nepotism
- ⑤ Speculation
- ⑥ Lack of interest
- ⑦ Lack of good labour relation
- ⑧ High taxation
- ⑨ Excessive Government control
- ⑩ Lack of secrecy
- ⑪ Delay in decision
- ⑫ Social evils due to monopoly

PRIVATISATION

Meaning : Transference of control and execution of services and activities previously administered by the Government to private sector

Features

- ① Transfer of ownership
- ② Lack of Government interest
- ③ Economic democracy

Ways

- ① Public auction
- ② Sale by shares
- ③ Direct negotiations
- ④ Public tenders
- ⑤ Lease

Objectives of privatisation

- ① Increased Quality of life
- ② Increased access to essential items
- ③ Increased production opportunities
- ④ Lowered price of essential items
- ⑤ Increased value of human capital
- ⑥ Improved social life in middle class
- ⑦ Reducing the percentage of people living below poverty
- ⑧ Better higher education facilities
- ⑨ Fair competition
- ⑩ Dissolution of concept of monopoly

Advantages

- ① Increases flexibility
- ② Improves service quality
- ③ Increases efficiency
- ④ Decrease of monopoly
- ⑤ Lack of political interference
- ⑥ Quick establishment
- ⑦ Increase in competition
- ⑧ Fair price to consumers

Disadvantages

- ① Monopoly
- ② Public interested in some sector to be Government oriented
- ③ Loss of Income to Government
- ④ Fragmentation
- ⑤ Short termism