

## TOPICS TO BE COVERED AT ADVANCED LEVEL ECONOMICS:

There are 11 broad topics with depth indicated in the sub topics.

1. Introduction to Economics
2. Price theory
3. Production theory and market structures
4. National income
5. Economic growth, economic development and development theories
6. Economic development strategies.
7. Population, labour, labour unions and employment
8. Money, Banking and inflation
9. Public Finance and Fiscal policy
10. International trade
11. Economic Development Planning

### Note:

- ❖ The topics listed above should equip learners with the ability to adapt to change and be able to explore challenges of life in the modern generational 21<sup>ST</sup> Century. This is with reference to acquisition of generic skills such as Critical thinking and problem solving, Cooperation and Self Directed Learning, Creativity and Innovation, Communication, Mathematical Computation, Information and Communication Technology Proficiency, Diversity and Multicultural skills.
- ❖ The learners should develop an understanding of complexities of life as a whole in terms; Environmental and Health Awareness, Life Skills, Mixed Abilities and Involvements and Citizenship and Patriotism which are of concern to all mankind irrespective of their areas of origin and speciality.
- ❖ The learners need to embrace values of Citizenship derived from Uganda's National Ethical Values Policy, such as; Justice and Fairness, hard-work for self reliance, Truth and Honesty, Respect for humanity and environment , Social harmony, National unity among others, all these should be developed as learning progresses.

## BACKGROUND TO THE ALIGNED ECONOMICS SYLLLABUS:

The Alignment of the A- Level Curriculum to that of the lower Secondary led to changes in the pedagogies (**the method and practice of teaching**) of learning from knowledge and objective based, to an integrated and learner and learner-centred competency- based approach.

The Economics syllabus is part of the Advanced Secondary Curriculum , some topics have been merged, upgraded and some content removed as it is no longer matching with the current trends.

While Aligning the the Economics syllabus, efforts were made to ensure smooth progression of concepts from the Lower Secondary Level , **adopting topics and content with familiar features that are of value to the learner, society and the nation at large.**

In addition the process of developing the Aligned Economics syllabus removed what was considered obsolete, high pitched as well as content overlap and overload.

The Aligned Curriculum requires learning to be experimental, through the suggested learning activities for the acquisition of the learning outcomes.

Formative assessment in Economics focuses on the acquisition of knowledge and skills through performance of the learning activities. The learning activities sprout from the learning outcomes which are evidenced by acquiring and demonstrating the application of the desired skills, to show that learning has taken place.

## **RATIONALE OF ECONOMICS SUBJECT AT ADVANCED SECONDARY**

Economics Equips the learners with knowledge, skills, values and attitudes that enables them to participate in, contribute to, adapt to, and survive in a challenging economic society. It enables them to demonstrate a critical awareness of the benefits of responsible and effective resource utilisation

The learners are able to;

1. acquire economics vocabulary that allows them to debate and communicate the essentials of this subject.
2. apply, in a responsible and accountable manner, the principles that underlie the basic economic processes and practices.
3. explore a variety of methods and strategies to analyse and explain the dynamics markets.
4. collect, analyse, and interpret data on production, and exchange, as well as other information to solve problems and make informed decisions.
5. Understand human rights concerns, reflect on the wealth creation process, and engage in poverty alleviation.
6. analyse and assess the impact of local and global institutions on the country's economy.
7. further their studies in Economics, Education, Development Studies, Business finance and Accounting, Mass communication, Tourism, Business Administration, Agricultural Economics, Law and Statistics.

Take note of the following abbreviations and their meaning as used in the Aligned Economics Syllabus;

- (i) u - Understanding
- (ii) s- Skills
- (iii) gs- Generic skills
- (iv) sr- self- reliance
- (v) ld -leadership
- (vi) p- patriotism
- (vii) ll- long life learner
- (viii) mu- Morally upright

### **ASSESSMENT:**

The Advanced Secondary Curriculum sets new expectations for learning with a shift from objectives learning outcomes that focus mainly on the application of knowledge and deeper learning that leads skills acquisition.

These learning outcomes require a different approach to assessment. The learning outcomes in the Aligned syllabus is outlined in terms of knowledge, understanding, Skills, Values and Attitudes. This is abbreviated by the letters k, u, s, v, and a. This section therefore focuses on knowledge, understanding and skills. Each has its own Implications for learning and assessment

To assess knowledge, understanding, skills and their application, we need to consider various Factors, knowledge can be assessed to some extent through written tests, but assessment of skills, application of what is learnt and deeper understanding requires different approaches

## TOPIC ONE: TOPIC 1: INTRODUCTION TO ECONOMICS:

**Competency:** The learner applies key economic concepts and fundamental economic problems through analysing specific data to make proper decisions for personal and community development.

The discipline of economics greatly centers on economic problems and how man can make best use of the basic available resources.

It also concerns itself with the distribution of the output among the individuals and the different economic activities in the society.

Economics is regarded as a practice of how mankind goes about his business of production, distribution and consumption of goods.

**Note:** Resources are tangible and intangible things including human labour which we can make use of in order to satisfy our needs or wants

### DEFINITION OF ECONOMICS

Economics has been and will continue to be defined variously by different scholars. It is important to point out the contributions of outstanding economist right from the 18<sup>th</sup> century to date.

#### 1. The classical definition.

Widely regarded as the Father of modern economics, Adam Smith, in his book “The Wealth of Nations” provided the first definition of Economics and said that, “Economics is a science that studies the nature and causes of wealth of Nations.”

Adam Smith’s definition emphasised the laws governing the wealth of individual nations.

According to this definition, Economics studies the process of making physical goods within the economy.

This definition was criticised because it puts emphasis on the process of creation of material wealth of man and ignores the immaterial needs of man. The definition is also considered to be narrow because it does not address the scarcity of resources.

## 2. LIONEL ROBBIN'S DEFINITION

He defined Economics "a science which studies human behaviour as a relationship between ends and scarce means which have alternative uses".

N.B: Ends are desires/ wants/Needs and Means are resources.

From Robbins's definition, we notice the following characteristics;

- Unlimited/ endless human wants.
- Limited/scarce resources to satisfy the unlimited human wants
- Limited resources have alternative uses and there are different human wants according to the degree of importance.

In summary, Robbins's main concern in that definition of Economics is that the main aim of Economic activity should be to allocate the scarce resources in such a way that maximum human satisfaction of wants may be achieved.

### Conclusion:

For the purpose of studying of Economics, we shall therefore define it as a discipline which centers on the problem of human beings as to how they can make the most efficient use of the available resources to produce goods and services in order to satisfy human wants and also how to distribute output to society.

## BRANCHES OR DIVISIONS OF ECONOMICS

Broadly, there are two branches of Economics namely Micro Economics and Macro Economics.

### Micro Economics

This deals with economic activities of individual units, e.g. households, retailers, wholesalers and firms. It also examines how prices are determined when producers and retailers meet in the market. The many practical problems that producers face regarding what, where, when, how to produce, and how to effectively distribute the output all fall under Micro Economics. It deals with the way in which individual consumers allocate their scarce income to meet their unlimited needs/wants. The major importance of Micro Economics is that it helps us to understand the functioning of individual economic units.

## **Macro Economics**

This deals with the decisions which collectively affect the larger sections of the economy such as the total income of the workers, total output of all firms in an industry, problems of inflation, unemployment, balance of payment deficit, etc. The major importance of Macro Economics is that it helps us to understand the functioning of the entire economy.

## **ECONOMICS AS A POSITIVE AND NORMATIVE SCIENCE.**

### **POSITIVE ECONOMICS/ STATEMENT**

This is the study of how actually the economy functions. It is concerned with reality/ what happens i.e. how the world is, how it was and how it will be.

Positive Economics is about facts in real life; it deals with what is, what has happened or how certain conditions are related to each other. Examples include;

- A businessman always aims to make maximum number of profits.
- Inflation should be controlled.
- Most people buy more goods at lower prices.

Positive statements assert alleged facts about the universe in which we live.

### **NORMATIVE ECONOMICS**

**Definition:** This is a branch of Economics that is geared towards norms i.e. generally acceptable ways of doing things. It is concerned with how the world ought to be. In other words, normative Economics is about value judgement and it depends on the individual's opinion.

The economic performance is compared with the ideal and the difference between what happens and what should actually happen leads to the formulation of policies that should bring about improvements so that what is desirable is achieved.

Examples of normative statements;

- All entrepreneurs make profits
- People will always buy goods of the same quality from the cheapest sources.
- All highly priced goods are of good quality
- All poor people are lazy

**Note;** Positive Economics mostly applies in the setting of paper two questions because it emphasises facts about the economy, while normative Economics mostly applies in the setting of paper one questions because they are not factual and thus depend on people's value judgement.

### **ECONOMICS AS A SCIENCE**

Economics has some science attributes which to some extent gives it a place in science disciplines.

It formulates laws and generalisations concerning relationships between observed facts, for example the law of demand which states that "the lower the price, the higher the quantity demanded and the higher the price the lower the quantity demanded" ceteris paribus, meaning, keeping other factors constant.

However, Economics is not like any other natural sciences like physics and chemistry which conduct controlled experiments, Economics deals with human behaviour whereby controlled experiments are not possible. Therefore, Economics qualifies to be a social science. Its findings are greatly affected by the feelings and attitudes of man.

### **The difference between Wants and Needs.**

**Needs.** These are things that someone cannot do without such as food, water, shelter and medical care.

**Note** a need is something that is necessary for one to live and function.

**Want.** This is a human desire which can improve quality of life of a person.

**Note:** Needs are essential for survival and well-being and are universal and common to all individuals, while wants represent desires beyond basic necessities and are subject to change.

**Wants can be categorised as material, immaterial, private or public.**

**Material wants;** these are desires for physical objects e.g. designer clothes, luxury cars, posh phones.

**Immaterial wants;** these are desires for non-materials qualities of human life such as peace, equality, acceptance.

**Private wants;** are desires of an individual person e.g. designer shoes, luxury car.

**Social / Public wants** are the collective desires of group/many people in society. Such as highways, public libraries, public parks.

### **CHARACTERISTICS/ FEATURES/TRAITs OF HUMAN WANTS.**

- Wants are unlimited in that they are countless/ numerous/ endless.
- They are recurrent, i.e. they need continuous replenishment
- Wants are competitive i.e. human wants compete for resources to be satisfied
- Wants are complementary i.e. the satisfaction of which requires joint use of available means.
- They are dynamic i.e. they are ever changing depending on the prevailing economic, social and political situations.

### **THE FUNDAMENTAL PRINCIPLES OF ECONOMICS**

The fundamental principles of Economics explain the fundamental Economic problems of man. There are three main principles namely; **Scarcity, Choice and Opportunity cost.**

- **SCARCITY;** This is the limited supply of resources in relation to unlimited human wants. All things are in short supply relative to peoples' desire for them but resources to satisfy them are scarce. This forces man to make choices in order to satisfy the most pressing one.
- **CHOICE;** This refers to the taking of the right decision either by a consumer or a producer among two or more alternatives.

Man has to choose among the alternative needs or wants by making a scale of preference.

**Note:** scale of preference is a list of wants or needs arranged or organised in order of importance or priority. If human beings were rational, they would rank wants or needs in order of preference so that they would satisfy the most pressing needs first and end with the least pressing needs.

- **OPPORTUNITY COST;** This refers to an alternative foregone when choice is made.

**OR:** This refers to the next best alternative forgone when choice is made.

It also arises because of scarcity, e.g. the consumption of one commodity or product, means doing without other products.

Economists use opportunity cost to express the cost of a commodity, not in monetary terms but in terms of the next best alternative foregone. Therefore, opportunity cost is real cost. E.g. a student who dodges a lesson of Economics for a football match, the real cost is the Economics lesson missed.

### Importance/uses of opportunity cost in economic analysis:

- It is used by the consumers in making consumption decisions in order to maximise utility.
- It is used in pricing factors of production and final products.
- It is used when labour is deciding whether to work or enjoy leisure.
- It is used by the country when deciding what to produce for the international market i.e. deciding upon a commodity in which to specialise in international trade.
- It is used by the producer in making production decisions.

### Importance/Uses of opportunity cost to a producer:

- Used to determine what to produce
- Used to determine when to produce/The right time to produce.
- Used to determine for whom to produce
- Used to determine how to produce/technique of production to use
- Used to determine where to produce.

### The relationship between the fundamental problems of economics.

Resources are scarce relative to human wants therefore, consumers and producers have to make choice. In making choice among the different alternatives according to scale of preference and the next best alternative foregone is the opportunity cost.

### The production possibility frontier/ transformation curve/the opportunity cost curve.

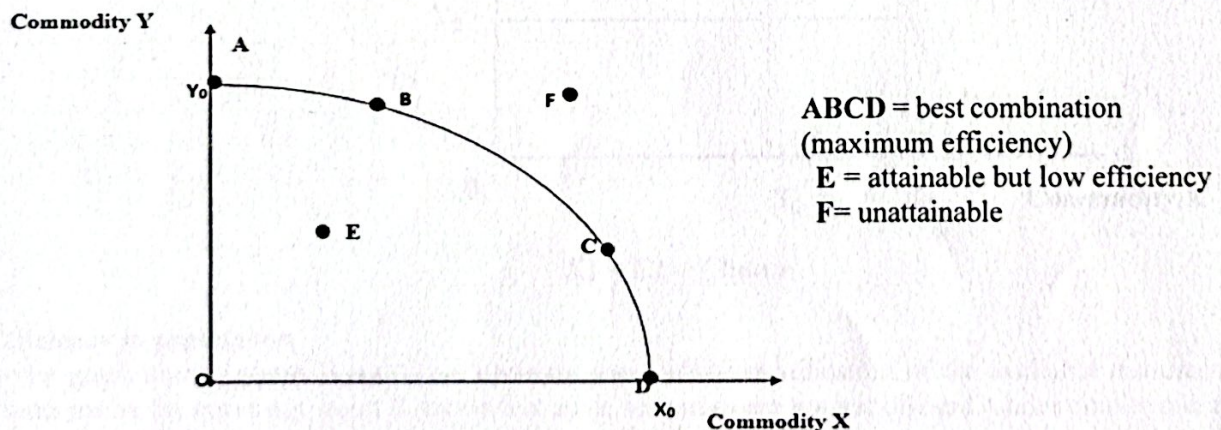
This refers to a locus of points that shows all possible combinations of two commodities that can be maximally produced when all resources are fully and efficiently utilised.

### Assumptions underlying the transformation curve:

- There is full utilisation of resources
- The level of technology is constant
- The supply of resources is fixed
- Producers are assumed to be rational in their production decisions i.e. they are assumed to be of a calculative mind.

### An illustration of the production possibility frontier/Transformation curve/opportunity cost curve:

Assuming the country can use its resources on the production of two commodities x and y and the country's resources are limited and therefore are restricted to the production of a given amount of commodity x and commodity y. In this case the transformation curve will be illustrated as below;



From the diagram above, if all resources are devoted to the production of commodity Y, the economy can produce the maximum of  $OY_0$ . Alternatively, if all the resources are devoted to the production of commodity X, the economy can produce the maximum of  $OX_0$ .

However, it is possible for the economy to produce the combination of Y and X and still maximally utilised the resources.

The combination of Y and X will depend on the needs of the producer. E.g. the country can produce more units of commodity Y and fewer units of commodity X or more units of commodity X and fewer of commodity Y. When one unit of commodity X is gained, then one unit of commodity Y is lost.

All points along the PPF curve e.g. ABCD are obtainable and indicate full employment/utilization of resources. All points inside the PPF e.g. point E indicate under-utilisation of resources and thus inefficiency. The points outside the PPF e.g. F are not obtainable because they are beyond available resources.

**The Transformation curve above illustrates the following:**

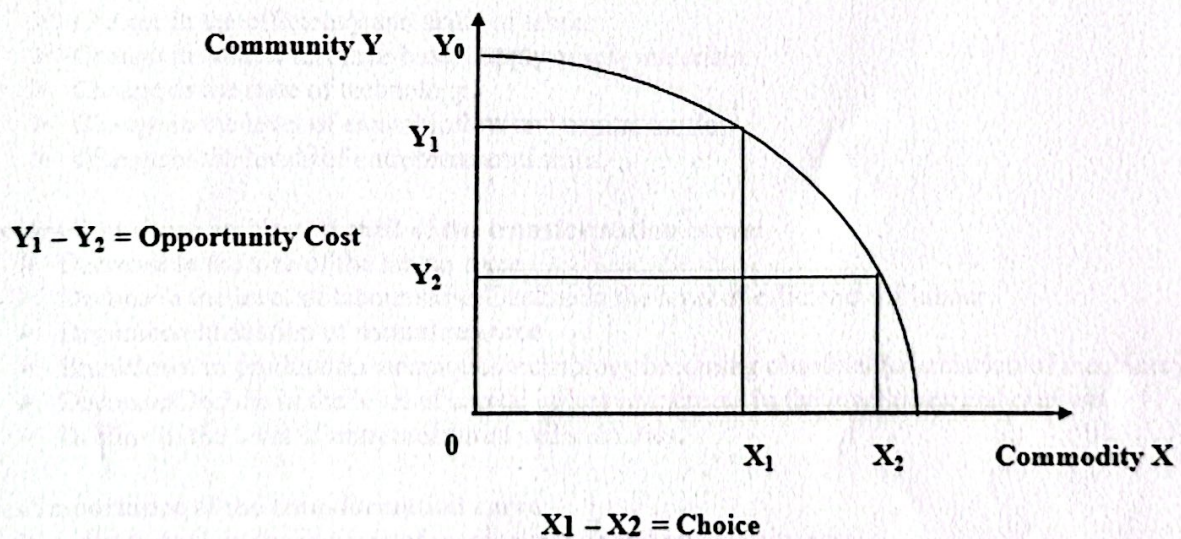
**Scarcity;** Resources are scarce because the country cannot produce beyond her PPF using fixed resources.

Scarcity is illustrated by the PPF where production cannot exceed the resource boundary.

**Choice;** The producer and the economy at large can choose the different combinations of X and Y depending on the needs of people.

**Opportunity cost;** This is illustrated by the movement along the PPF. E.g. to gain one unit of commodity Y, you produce one unit less of commodity X.

**A graph illustrating choice and opportunity cost:**



### Efficiency in production

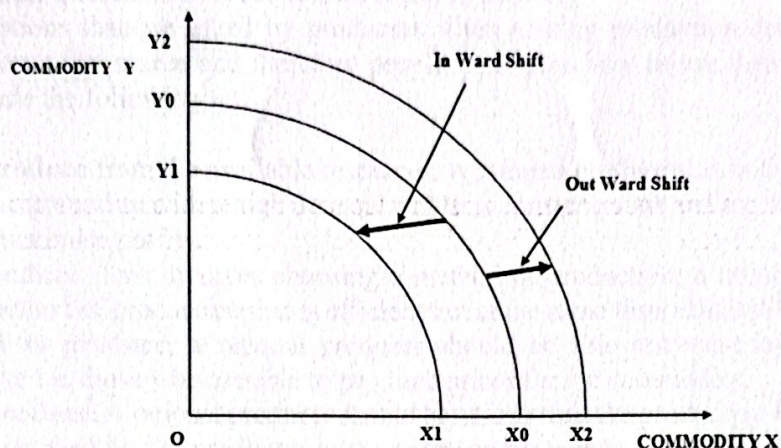
In the graph above, points B and C for instance, show efficient utilisation of the available resources. Points inside the curve e.g. point E shows that some resources are not yet utilised (under employment) and hence inefficiency.

Points outside the curve e.g. point f are not attainable using the available resources

### Economic growth

This is the persistent/ sustained increase in the country's volume of goods and services produced in a given period of time. This is illustrated by the shift of the PPF outside, i.e. to the right

An illustration of the shift/change of the transformation curve/the opportunity cost curve/the production possibility frontier curve:



In the above illustration the outward shift of the transformation curve is shown by the shift of the PPF curve from  $X_0Y_0$  to  $X_2 Y_2$ , and the inward shift of the transformation curve is indicated by the shift of the PPF curve to the left i.e. from  $X_0Y_0$  to  $X_1Y_1$ .

### Causes of a change/ Shift of the transformation curve:

- change in the size of the labour force
- Change in the efficiency and skills of labour
- Change in natural resource base/ supply of raw materials.
- Change in the state of technology.
- Change in the level of capital inflow and capital outflow
- Change in the levels of entrepreneurial skills.

### Factors that cause an inward shift of the transformation curve:

- Decrease in the size of the labour force
- Decline in the level of labour skills/Decline in the level of efficiency of labour
- Depletion/exhaustion of natural resource
- Breakdown in production techniques/technology becoming obsolete/depreciation of machinery.
- Decrease/Decline in the level of capital inflow or increase in the level of capital outflow.
- Decline in the level of entrepreneurial skills/abilities.

### Uses/Importance of the transformation curve

- Used to explain the concept of scarcity choice and opportunity cost.
- Used to show the efficient utilisation of resources in an economy.
- Used to show the rate of economic growth in an economy i.e. when there is an outward shift of the transformation curve.
- Used to show the marginal rate of substitution.

Note :

1. **Marginal rate of technical substitution;** this refers to the rate at which one factor input can be substituted/sacrificed for another in the production process while keeping the level of output constant.
2. **Marginal rate of transformation;** this refers to the rate at which one good is sacrificed to produce extra units of another good, while maintaining the level of output constant.

**The fundamental questions that economics seeks to answer:**

These are questions that are asked by producers when making production decisions because the available resources are scarce and therefore people must plan how to use them effectively. These questions include the following:

- **What to produce** from the available resources. A rational producer i.e. with a calculative mind produces a commodity with a high demand and thus consumers are willing to pay high price for it so as to maximise profits.
- **How to produce.** This involves choosing a method of production; a rational producer should choose a method of production that is efficient but at the same time affordable.
- **For whom to produce;** a rational producer should be able to choose the type of customers he is to serve i.e. those who are able to pay high prices for the commodity.
- **When to produce.** A rational producer should be able to time the production by producing at that time when demand for the product is high or expected to increase.
- **Where to produce.** This is about the location of the business. A rational producer should locate a business either near the source of raw material or near the market in order to minimise the production costs.

## **BASIC ECONOMIC CONCEPTS:**

### **WEALTH**

This is a stock of goods existing at a particular time.

**Or:** it refers to all assets of worth owned by a person, community, company or a country.

### **Characteristics/ features/ traits of wealth**

- It should be scarce i.e. should be limited in supply and not easily got.
- It should possess utility in that it should be able to satisfy human wants/ needs. c) It should have an exchange value or price.
- Ownership can be transferable from one individual / economic entity/ an economy to another.

### **FORMS OF WEALTH**

- **Personal Wealth;** this consists of personal assets and other forms of stock that satisfy the individual owner. It includes things like motor cars, radios, personal houses and real estates, etc.
- **Business wealth;** this comprises of an amount of stock owned by firms basically to make economic/ commercial profits. Such wealth consists of business assets such as factory, machinery, business stock, etc.
- **Social / Public/ Collective wealth;** this consists of resources or assets that are owned by the state/ government and are meant for the good of all the citizens.

Examples of social wealth include dams, public schools, public parks, public hospitals etc.

**Goods;** these are items that provide utility/ satisfy human wants and are relatively scarce.

Goods can be tangible or intangible

**Tangible goods;** these are products or items that one can see, feel and touch like books, food items, groceries, vehicle, building, machinery.

**Intangible goods;** these are assets which are not physical in nature i.e. they cannot be handled physically e.g. insurance, investment banking, healthcare, education.

### **TYPES OF GOODS:**

- **An economic good ;** this is one which is relatively scarce in relation to its demand and the consumption involves a cost i.e. consumers pay for it and thus commands a price in the market. Examples are; cars, dresses, television sets among other

#### **Features of economic goods**

- They are relatively scarce.
- They provide utility / satisfaction to the user.
- One has to pay so as to enjoy them.
- Their ownership is transferable.
- **Free good;** this is one which exists in **natural abundance** and is enough for everyone to consume as much as they want **at zero cost**. Examples of free goods are, air, sunshine and rainwater.

#### **Features of free goods**

- They exist in natural abundance
- They provide utility/ satisfaction
- They are enjoyed at zero cost
- **Public good;** this is one which when provided to a particular group of individuals becomes available for others to use at zero or no extra cost and consumption by one person does not reduce the amount available to other users.

Examples of public goods includes;

- ✦ National security/defence
- ✦ Law and order
- ✦ Public infrastructure such as roads, bridges, street lights
- ✦ Public broadcasting

#### **Features of public goods**

- Non-rivalry or no competition in consumption, one person can increase consumption without reducing consumption for others.
- Non-excludable, difficult to exclude anyone who does not pay for the commodity from enjoying it e.g. security, where it is difficult to exclude non-taxpaying users.
- Non-divisible; they are provided in totality e.g. defence which must benefit everybody.
- **Private good;** this is a commodity or service that provides satisfaction or benefit to an individual who pays for it. It is excludable in that consumption by one consumer prevents the consumption by another.
- **Giffen goods;** these are goods that take a big proportion of the poor's' income and consume more as their prices rises.
- **Goods of ostentation;** these are goods that are demanded by the rich at higher prices for the sake of showing off.

- **Substitute good.** This is a good that can be used instead of another because they almost serve an identical/same purpose in the satisfaction of human wants. E.g. tea and coffee.
- **Complementary goods;** These are goods that are used together in the satisfaction such that when one is bought it creates the need for another e.g. Car and petrol/fuel,
- **Consumer goods/Final goods;** these are goods meant for immediate consumption and give direct satisfaction to the user e.g. clothes, mobile phones, foodstuffs.
- **Producer goods/ Capital goods;** these are manufactured goods that are used in the production of other goods. E.g. machinery, factory buildings, raw materials.
- **Intermediate goods;** these are semi processed/ semi-finished goods that are used in the production of final goods. E.g. steel, wheat flour, cotton lint.
- **Durable goods;** these are goods which are capable of giving longer service/ satisfaction to the user e.g. buildings, furniture
- **Perishable goods;** these are goods that have a short shelf life i.e. they go bad easily/very fast E.g. fresh milk, bread, meat, vegetables
- **Merit goods;** are those whose consumption is deemed intrinsically desirable, (of high social value) and are meant to improve the quality of life of the people. E.g. Education, Healthcare services and Safe water.
- **Demerit goods;** are goods that inflict damage or harm to the consumer and sometimes impose costs to the society. E.g. cigarettes, alcohol, pornography material, etc.
- **Necessity goods;** these are goods that are very essential in people's lives and they cannot do without them, e.g. water, food, salt, soap etc.
- **Normal goods;** these are goods whose consumption or demand increases as consumer's income increases.
- **Inferior goods;** these are goods whose demand reduces/ falls as the consumer's level of income increases.
- **Tangible goods;** these are goods which can be touched and felt. E.g. a car, mobile phone, household items.
- **Intangible goods;** these are goods which cannot be touched and felt. These are in form of services. E.g. Education, Entertainment, guidance and counselling etc.

**SERVICES;** these are intangible goods that are helpful in production and making life comfortable and meaningful. They include;

- **Personal services;** these are services provided directly to the user e.g. teaching, medical care, legal services.
- **Commercial services;** these are technical services provided by institutions. e.g. banking, warehousing, transport etc.

#### **ECONOMIC AGENTS:**

These are decision taking units in an economy. They are classified as;

- **Households;** refers to people who live under one roof and take or are subject to others taking for them joint financial decision. They are the owners of factors of production and users/ consumers of goods and services.
- **Firms;** these are production units unified management and control that employ factors of production to produce goods and services to sell to households, other firms and the central authorities.

➤ **Central authorities;** these include agencies, bodies or organisations belonging or owing their existence to the government. They have legal power to control firms and households. e.g. the police, the central bank, the civil service and regulatory bodies such as UNBS, NDA, NEMA etc. They regulate and control activities of the firms and households.

#### Other common concepts used in economics:

- **CETERIS PARIBUS;** this is a Latin phrase meaning "other factors being equal or constant". It is a term used to analyse the relationship between economic variables assuming all other variables are constant.
- **EQUILIBRIUM;** this refers to the situation of stability when the forces as they exist at a particular time have no tendency to change. E.g. equilibrium in the market is attained when quantity demanded equals to quantity supplied,
- **DISEQUILIBRIUM;** this refers to a state within a market based economy in which the economic forces of demand and supply are unbalanced .e.g. when supply exceeds demand prices are likely to fall and when demand exceeds supply prices are likely to rise.
- **CONSUMER SOVEREIGNTY;** this refers to an economic concept where the consumer has some controlling power over the goods that are produced, and the consumer is the best judge of their own welfare i.e., the consumer is the king and thus has an upper hand in influencing the production decisions.

#### ECONOMIC SYSTEMS:

An economic system is defined as the system of **ownership, control and allocation** of resources of a country so as to achieve the major development goals, such as; attaining full employment, price stability, equitable income distribution, high and stable rate of economic growth, reducing economic dependence among others.

There are **three** basic economic systems which exist in the modern world today and these are;

- The Free enterprise economy
- Command economy
- Mixed economy

#### FUNCTIONS OF ECONOMIC SYSTEMS

- Determining what to be produced and in what amounts i.e. what goods to produce and services are to be produced.
- Deciding how to produce the selected commodities i.e. deciding the techniques of production to use.
- Allocating the total output of goods and services among its members i.e. deciding for whom to produce in a given period of time e.g. in the market-oriented economy, the price will always be the mechanism for such an allocation.
- Making provisions for the maintenance and possible expansions of the productive capacity, producers will need to set aside a portion of resources in order to provide for the maintenance of the productive capacity of the firm in the future.

#### FREE ENTERPRISE ECONOMY/CAPITALISTIC ECONOMY/ MARKET ECONOMY/LAISSEZ-FAIRE ECONOMY/UNPLANNED ECONOMY:

This is an economic system where productive resources **are privately owned**, and are **allocated** by the free interplay of the market forces of demand and supply without government interference.

## **FEATURES OF THE FREE ENTERPRISE ECONOMY:**

- There is private ownership of resources.
- There is existence of competition amongst producers and consumers in both the factor and output/product market respectively i.e. the producers compete for scarce resources in order to maximise profits and consumers compete for the scarce goods and services in order to maximise utility.
- There is limited or no government interference in decision making and resource allocation.
- Production is mainly for profits i.e. the aim of the producer is for generation of profits.
- There is freedom of choice by both the producers and consumers.
- There is self-interest in all economic undertakings.
- There is emphasis on consumer sovereignty i.e. in a free enterprise economy, a consumer influences the fundamental decisions of the producer e.g. what, where to produce etc.
- Prices in a free enterprise economy are determined by the forces of demand and supply.

## **MERITS OF A FREE ENTERPRISE ECONOMY:**

- **It reduces administrative costs;** this is because adjustments are automatic since they are made by forces of demand and supply since there is no need to employ an external body to monitor the process of production.
- **It encourages the production of high quality goods;** this is due to competition among the producers.
- **It limits wastage of resources;** this is because production is always according to the demand i.e. the producer always produce what consumers have indicated as their desires.
- **It widens consumers' choice;** this is due to production of a wide variety of goods and services since there are many producers.
- **It promotes utilisation of idle resources;** this is due to existence of many firms which aim at profit maximisation hence increasing the demand for raw materials so as to increase production of goods and services.
- **It enables consumers to buy goods at lower prices;** this is as a result of price wars, which are associated with competitive production
- **It encourages efficiency of firms;** this is due to the profit motives and competition among producers.
- **It encourages creativity and innovativeness;** this is due to competition in production.
- **It promotes consumer sovereignty;** this is because the producer is compelled to produce and put on the market products that are highly desired by the consumers so as to enable him make bigger sales and thus maximise profits.
- **It increases employment opportunities;** this is because the system attracts a number of firms to be established due to the opportunity to earn profits, many jobs are created by such firms.

## **DEMERITS OF FREE ENTERPRISE ECONOMY:**

- **It leads to the emergency of private monopoly power and its associated evils;** this arises as a result of inefficient firms being outcompeted leaving a few firms to enjoy monopoly power.
- **It leads to income inequalities;** this is because those who own more resources produce more goods and earn more income than those with fewer resources who produce less output and thus earn less income.
- **The system creates economic instabilities,** such as price instability, balance of payment instability; this is due to the variations in the market forces of demand and supply and lack of state control.

- **It does not respond to rapid structural changes** such as occurrence of catastrophes. This is because the operations of producers are determined by market forces of demand and supply and producers target profits and only engage in activities that increase profits.
- **It ignores the provision of public goods such as defence;** these goods are ignored by the private producers yet they are essential because they are less profitable.
- **The system leads to resource wastage;** this is because it encourages the duplication of activities since there are many producers of the similar goods and services and this results into unnecessary competition.
- **Leads to over exploitation of non- renewable resources;** this is because of the profit motive which make the producers irrational in resource use, thus resource depletion.
- **It leads to social costs such as environmental pollution;** this is because there are many private firms which put a lot of emphasis on profit thus they carry out poor waste disposal and also emit toxic gases in the environment which endangers lives of the population.
- **Leads to unemployment;** this arises when inefficient firms are out-competed or due to use capital intensive technology where less labour is used.

#### **CONTROLLED/CENTRALLY DIRECTED/PLANNED/SOCIALIST/COMMAND ECONOMY;**

this is an economic system where resources are owned and allocated by the state/government or a centrally appointed body.

#### **FEATURES OF A COMMAND ECONOMY**

- There is extensive planning by the central planning authority which makes all vital economic decisions.
- Production is mainly to promote the welfare of the people and not to make commercial gains.
- There is no competition in production since it is only the government that carries out production..
- Prices of the commodities are fixed by the state through the central planning authority.
- The government mostly provides essential goods and services.
- There are no private investors since all investments are undertaken by the government
- Resource ownership and allocation is in the hands of the state

#### **Advantages of a command economy**

- **It eliminates wasteful competition hence minimising resource wastage;** this is because production is only in the hands of the government thus faces no competition from the private sector.
- **It minimises consumption of harmful/demerit goods;** this is because the state is more concerned about production of essential goods that are meant to improve the welfare of the people at subsidized prices.
- **It reduces consumer exploitation;** this because the government charges low prices to the consumers so as to promote their welfare.
- **It promotes even distribution of income;** this is because government fairly distributes resources and income generating activities among the regions.
- **It widens employment opportunities;** this is because public enterprises operate on large scale and are established in the different of the country and thus need to hire more workers to facilitate the production of goods and services.
- **It minimises economic instabilities;** this is because the government has control over the prices and are not determined by prevailing forces of demand and supply.

- **It encourages production of public and merit goods;** this is because the government allocates funds to provide such goods so as to improve the welfare of the people.
- **It minimises social costs in form of pollution.** This is due self-regulation in production using statutory bodies .
- **It eliminates private monopolies and its associated evils.** This is because resource allocation and production activities are undertaken by the state whose emphasis on focussing on welfare maximisation of the population.

#### **Disadvantages of a command economy**

- **It results into high administrative costs;** this is because the government hires many officials to estimate the consumers' needs and direct factors of production accordingly.
- **It results into resources wastage;** this because the state is unable to accurately predict peoples desires which is sometimes contrary to what the state provides hence of wastage
- **It discourages private initiative and hard work;** this is because of absence of profit motive in production since the private investors are not given chance to participate in business activities and decision making.
- **It leads to delays in decision making;** this is because of bureaucracy and red tape associated with this system where many consultations have to be made before a decision is taken
- **It limits consumers' choice;** this is because limited variety of goods and services are produced since government's interest is providing basic necessities of life.
- **It leads to production of poor quality products;** this is due to lack of competition in production.
- **It leads to inefficiency of firms;** this is due to absence of competition in production and lack of profit motive.

**MIXED ECONOMY;** this is an economic system where the resources are owned and allocated by both the state and individuals. It combines elements of both the market economy and a planned economy.

**Note:** the mixed economy protects private property, allows economic freedom in the use of capital, but also allows the government to interfere in the economic activities of the private sector in order to achieve the desired development of objectives.

Generally most Economies in the world Uganda inclusive are mixed

#### **FEATURES OF A MIXED ECONOMY**

- Ownership of resources is by both the private individuals and the government/state.
- The economic decisions such as what to produce are made by both the state and private individuals.
- Production is aimed at both profit maximisation for private individuals and welfare maximisation on the part of state.
- There is co-existence of the private and public sectors existing side by side.
- There is regulated competition in production and consumption
- There is existence of indicative planning i.e. where the government identifies appropriate investment areas and provides incentives and required information to private investors to achieve predetermined forecasts and targets.
- The allocation of resources is by the market forces of demand and supply and the central planning authority/government.

## **MERITS OF A MIXED ECONOMY**

- It improves the quality of goods; this is because of the competition between the private and public sectors.
- The public sector provides essential goods which are usually ignored by the private sector.
- It widens consumers' choice; this is because it provides a variety of goods and services by both the private and public sectors.
- It reduces income inequality. This is due to redistributive policies by the government and also gives chance to the population to participate in different economic activities in both sectors thus widening chances of securing that generate incomes to them.
- It leads to limited wastage of resources due to regulated competition in the private by the state through statutory bodies and laws; for instance for the case of Uganda bodies like NEMA, URSB, UNBS and so on.
- Individuals' self-interests are regulated by the public sector such as over exploitation of resources hence reduced social costs e.g. pollution.
- It increases employment opportunities. This is due to the wide range of economic activities carried out by both the private and public sector hence increased demand for labour to facilitate production in both sectors.

## **DEMERITS OF A MIXED ECONOMY**

- It discourages investment by the private sector. This is because of the restrictions imposed on it by the state such as high taxes, issuance of expensive trading licences which increases the cost of production thus lowering sales and profits.
- It makes public sector inefficient, this is because it fails to provide the required infrastructure which leads to inefficiency in the production process.
- It results into conflict between the public and private sectors. This is because the restrictive government policies which limit the profit levels in the private sector.
- It exposes the public sector to heavy competition from the private sector which is more efficient and focused on profit which makes it more innovative thus the public sector being outcompeted, this more common in absence statutory monopolies.

**Note:** Statutory monopoly is a market situation where there is a single seller or producer of a commodity arising through an Act of Parliament which allows it to operate without any competitor. For the case of Uganda we have UNEB, UEDCL, UNBS, NWSC, NIRA.

**THE PRIVATE SECTOR;** this is a section of an economy where production decisions are made by private individuals guided by the market forces and supply. The production units in the sector are called private enterprises.

**Note:** A private enterprise is a business unit owned and controlled by private individuals.

## **FEATURES OF THE PRIVATE SECTOR IN DEVELOPING COUNTRIES:**

- ❖ Most private enterprises operate on a small scale
- ❖ Most of them are profit motivated.
- ❖ Most firms in the sector use labour intensive techniques of production
- ❖ Mainly produce consumer goods.
- ❖ Mainly employs semi-skilled and unskilled labour
- ❖ Mainly uses local resources

- ❖ Most firms in the sector are urban based
- ❖ The sector mainly produces low quality of output
- ❖ Most firms in the sector produce at excess capacity/ most firms in the sector produce low levels of output.
- ❖ Most firms in the sector produce for the local market.

### ROLE/ CONTRIBUTION OF THE PRIVATE SECTOR

- It generates revenue to the government
- Creates employment opportunities.
- Promotes development labour skills.
- It promotes industrialisation
- It promotes production of better quality goods and services
- It promotes technological development.
- It promotes resource utilisation.
- It widens consumer choice due to variety of goods produced by the various firms in the sector
- It promotes entrepreneurship
- Promotes infrastructural development
- Promotes commercialisation of the economy.
- It accelerates the rate of economic growth.
- It provides capital by both local and foreign investors.
- It improves the balance of payment position
- It promotes diversification in the economy/ reduces economic dependence
- It promotes efficiency of firms

**Note:** The learners is expected to show how each role/ contribution given above comes about.

### DEMERITS OF THE PRIVATE SECTOR

- **It encourages the development monopoly and its related evils;** this is because some inefficient firms are kicked out of business and the few that remains gain monopoly status.
- **It leads to profit repatriation;** this is because there many foreign investors who repatriate the profits earned back to their countries.
- **It leads to consumer exploitation;** this is because private investors overcharge consumers in order to earn abnormal profits.
- **It leads to the production of demerit goods;** this is because such goods attract high profits and since producers in the private sector are interested in maximising profits, they produce more of such goods.
- **It ignores the provision of public and merit goods;** this is because they are not profitable and yet profit investors are profit oriented.
- **It makes government planning difficult;** this is because it does not follow the plans made by the government strictly but rather follows the wishes of the consumers.
- **It leads to quick depletion of resources;** this is because they tend to overexploit the available resources so as to produce more goods and increase profits.
- **It leads to income inequality;** this is because private investors sell their goods expensively and the consumers become poorer as the incomes of the investors increase.
- **It leads to unemployment;** this is because some firms collapse due to stiff competition and workers in such firms are laid off.
- **It leads to wastage of resources;** this is due to duplication of activities and heavy

- expenditure on persuasive advertising
- **It leads to environmental degradation/ pollution**
- **It leads to foreign economic domination**
- **It leads to misallocation of resources**
- **It leads to price instabilities**
- **It distorts consumer choices**
- **It does not respond to rapid structural changes in the economy**

#### **FACTORS THAT AFFECT THE PERFORMANCE OF THE PRIVATE**

- The market size
- The state of technology
- Availability of investment incentives
- Level of entrepreneurial skills/ability
- Availability of capital
- State of infrastructure
- Availability of skilled labour
- Political climate
- The rate of inflation
- Level of accountability
- The land tenure system
- Natural factors
- Availability of patent/copy right laws

#### **PROBLEMS FACED BY THE PRIVATE SECTOR IN DEVELOPING COUNTRIES:**

- Limited market size.
- Low levels of technology.
- Limited investment incentives
- Limited entrepreneurial skills.
- Inadequate capital.
- Poor infrastructure.
- Limited skilled labour
- Political instability
- High rate of inflation.
- Corruption
- Poor land tenure system.
- Unfavourable natural factors.
- Ineffective enforcement of patent/copyright.

#### **POLICIES THAT CAN BE TAKEN TO PROMOTE THE PRIVATE SECTOR IN DEVELOPING COUNTRIES:**

- Undertake privatisation
- Ensure political stability.
- Liberalise the economy.
- Provide affordable credit
- Widen the market
- Control inflation.