

Unit 5: Economic Systems- Resource Allocation

Learning objectives

At the end of this unit, you will learn about:

- ✓ The difference between public sector and private sector
- ✓ The definition of an economic system
- ✓ The distinction between a free market economy and a mixed economy

5.1 Discovering the public sector

- The public sector is **owned** and **controlled** by the **government**.
- That is, businesses producing goods and services are owned and controlled by the **state**.

Objective of the public sector

- The government aims **to improve the welfare of citizens** rather than to **make profits**.



Hint: Welfare means the well-being, happiness or prosperity

- Also, the government aims at **providing jobs to people** in ministries, district councils, municipalities, public corporations and other government owned businesses.

Examples of public sector activities

1. Coast guard services
2. Forestry services
3. Public schools
4. Fire services
5. Public hospitals
6. Police station
7. Army
8. Post office
9. State banks

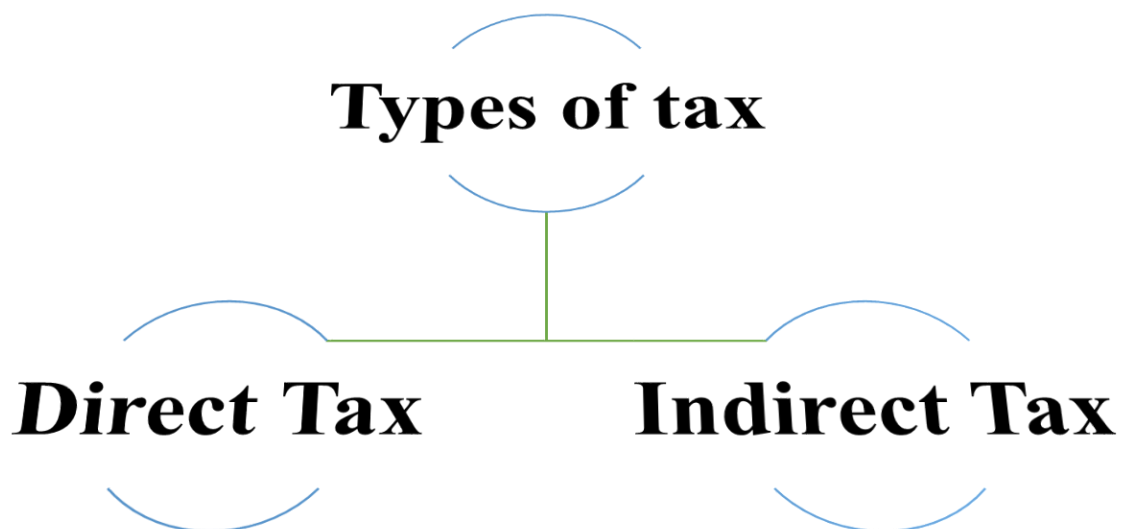
Businesses, Government, and Tax

- Where does the government get finance to provide goods and services to the population?

Taxes – Mauritius Revenue Authority (MRA)

- Government get finance to open and run businesses in a country through **Tax**.
- Taxes are **sources of revenue** for the government to provide essential goods and services to the local community.

Types of tax



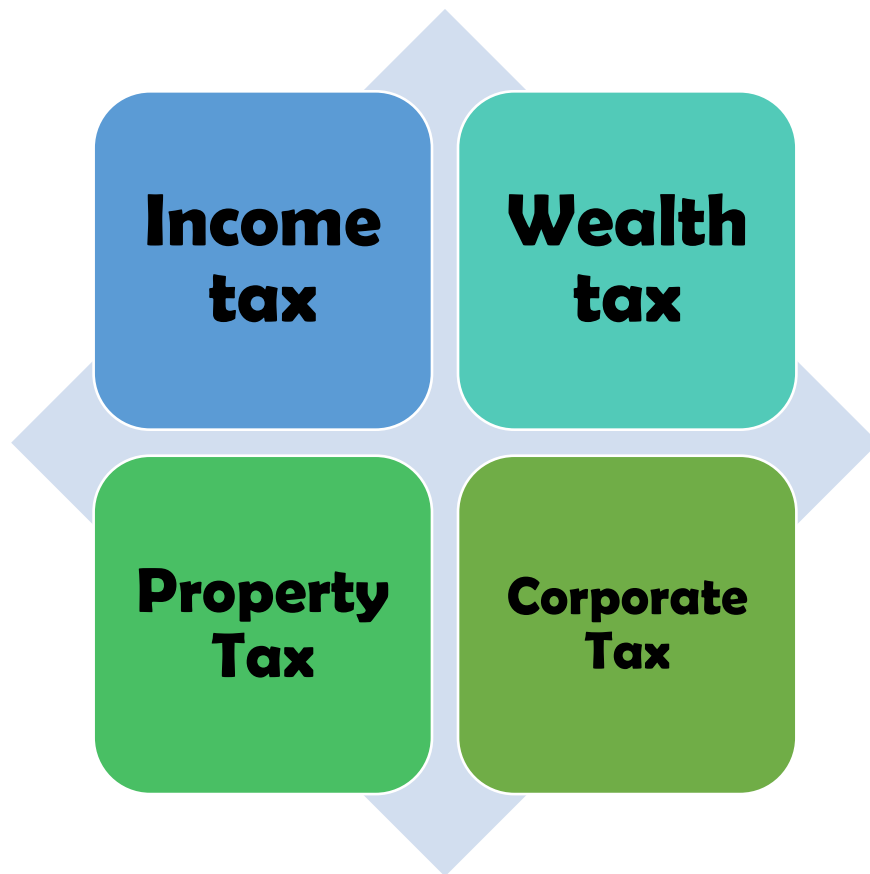
Direct tax

- Direct tax is charged on a **person's income and wealth.**
- It is paid **directly** to the **government.**



Hint: Income is money received on a regular basis for work done.

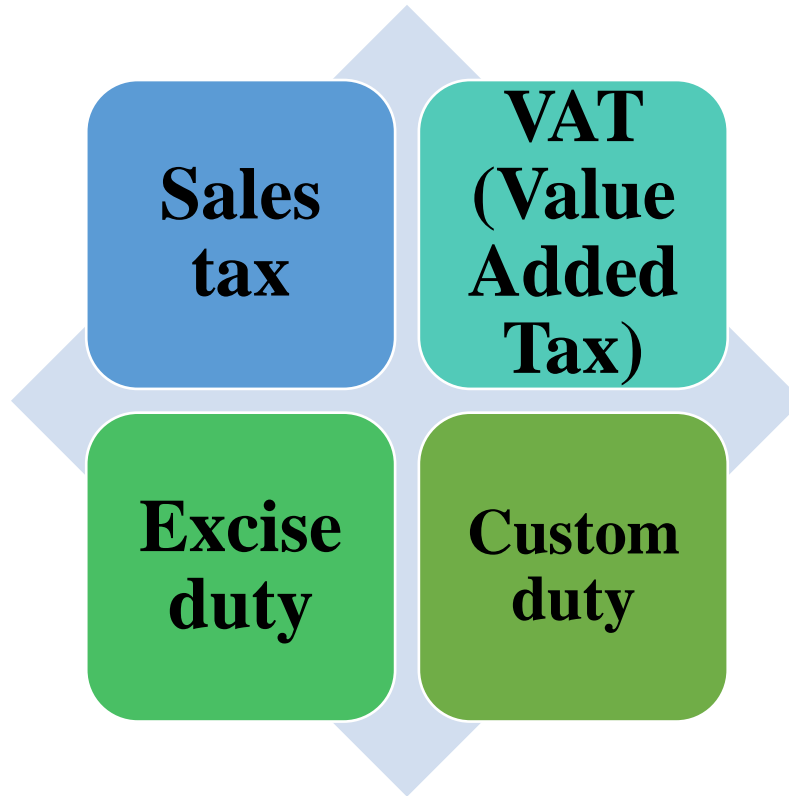
There are many types of direct tax, such as:



Indirect tax

- Indirect tax is charged **on a person** who **consumes the goods and services**.
- It is paid **indirectly** to the **government**.

There are many types of direct tax, such as:



Examples of taxes in Mauritius

1. Income tax
2. Value Added Tax (VAT)
3. Corporate tax
4. Custom duty

5.2 Discovering the private sector

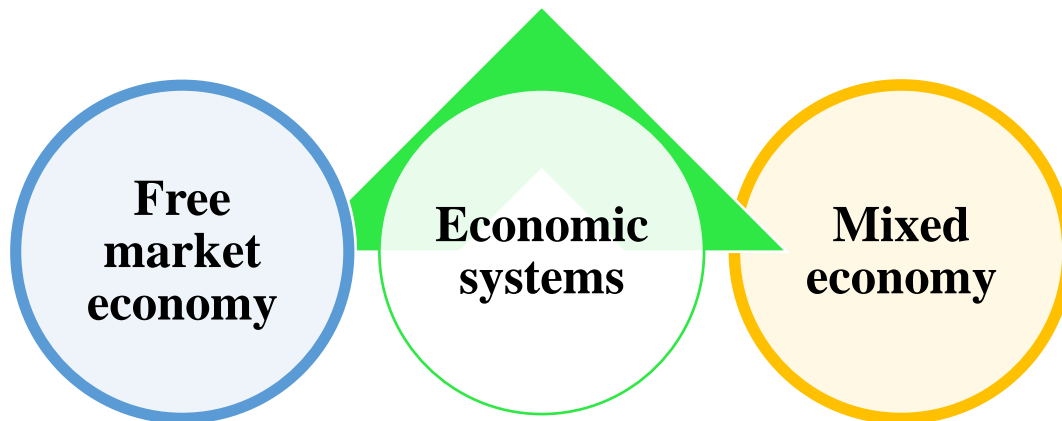
- Private Sector consists of **private enterprises** which produce **goods and services** to **make profit**.
- It is important to have the private sector as it **creates job opportunities**.
- The private sector has a variety of activities in the primary, secondary, tertiary and quaternary sectors.

Examples of Private Sector Enterprises

1. Farmer
2. Hairdresser
3. Soft drink manufacturing
4. Research and development

5.3 Different economic systems

There are two common economic systems



Basic economic questions

Each of these economic systems will deal differently with the following basic economic questions:

1. What to produce?
2. How to produce?
3. For whom to produce?

What to produce?

It involves:

- What kind of goods and services should be produced?
- Variety and quantity of goods and services an economic system must produce to satisfy needs and wants
- An opportunity cost - For example, if shoes are produced instead of bags, then the bags are the opportunity costs.

How to produce?

It involves:

- Which resources will be used to produce
- Methods of production enterprises must decide to use

For example, businesses must choose whether production will be mostly using:

- Workers – Labour intensive
- Machines – Capital intensive

Labour intensive

This method of production is when an enterprise **uses more labour than capital.**

Capital intensive

This method of production is when an enterprise **uses more capital than labour.**

For whom to produce?

It involves:

- Who will have these goods or services
- Because of scarce resources, the enterprise or the government must decide for whom to produce the goods or services.

For example, they have to decide if they will have to produce it for children, youngsters, or the elderly

5.3.1 Free market economy

- In a free market, **consumers and producers will decide** what to produce, how to produce and for whom to produce
- Most economic activities are carried out by the **private sector**.

Free market economy

- There is competition between enterprises which encourages **creativity and innovation**.
- However, many enterprises focus on **making profits** and ignores **damages to the environment**.

5.3.2 Mixed Economy

- A mixed economy comprises of **both the public sector** and the **private sector**.
- It is an economic system in which both the private and the public sectors decide what to produce, how to produce and for whom to produce.

Examples of mixed economies

1. Mauritius
2. United Kingdom
3. India
4. Australia

- Mostly all countries in the world have mixed economies.

The public sector

- The public sector provides education, healthcare, law and order as well as other services, which are important for the **welfare of the society**.

The private sector

- Businesses in the private sector provide a variety of goods and services **to make profits**.

Public and Private sectors

- In some countries, the public sector plays a more important role in economic activities.
- In many of them, government can put **laws** to reduce pollution and protect endangered animals' species.
- The basic economic questions in a mixed economy is determined by **both the public** (Government) and **the private sectors** (Private individuals)

Examples of government laws

1. To reduce pollution
2. Protect endangered animals and species

Examples of goods and services provided by the public sectors

1. Public schools
2. Roads
3. Public hospitals

Examples of goods and services provided by the private sectors

1. Taxi services
2. Transport
3. Mobile phones