

# Economy and Its Central Problems-R&U - Very-Info

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## **Q.1. What is meant by an economy?**

**Ans.** Economy is a system comprising all economic activities directed towards the satisfaction of unlimited wants using the scarce means.

## **Q.2. Who are economic agents?**

**Ans.** Economic agents are the producers, households (consumers) and the government who take economic decisions in the economy.

## **Q.3. Define capitalist economy.**

**Ans.** Capitalist economy refers to a market economy in which decisions relating to what, how and for whom to produce are governed by the market forces of supply and demand. The government does not interfere in the process of decision-making.

## **Q.4. Define centrally planned economy.**

**Ans.** A centrally planned economy (or a planned economy) is the one in which decisions relating to what, how and for whom to produce are taken by some central authority appointed by the government. Market forces operate only notionally and economic activity is guided exclusively by the consideration of social welfare.

## **Q.5. Define mixed economy.**

**Ans.** Mixed economy is the one in which both private as well as public sectors simultaneously exist and undertake the process of growth and development. Production of most goods is left to the free play of the market forces. However, there are government controls as well as regulations with a view to maximising social welfare.

## **Q.6. State the two characteristics of a centrally planned economy.**

**Ans.** Two characteristics of a centrally planned economy are as follows:

- (i)** In centrally planned economy, decisions relating to what, how and for whom to produce are taken by some central authority appointed by the government.
- (ii)** Market forces are regulated or controlled by the government.