

# Capitalist Economy

Capitalism or capitalist economy is referred to as the economic system where the factors of production such as capital goods, labour, natural resources and entrepreneurship are controlled and regulated by private businesses.

In a capitalist economy, the production of all the goods and services is dependent on the demand and supply in the market, which is also known as market economy. It is different from the central planning system, which is also known as command economy or a planned economy.

The main characteristic of a capitalist economy is the motive of earning profit. The capitalist economy is also characterized by the presence of free markets and lack of government participation in regulating the business.

The origin of capitalism can be traced back to 18th century England, which was undergoing the Industrial Revolution at that time. As there is no government intervention in this type of economy, it is also known as free market economy.

## Features of Capitalism

Let us discuss the important features of capitalism or capitalist economy

1. **Private Property** : This is one of the most important characteristics of capitalism, where private property like factories, machines and equipment can be owned by private individuals or companies.
2. **Freedom of enterprise** : Under this system in capitalism, every individual has the right to make their own economic decisions without any interference. This is applicable to both consumers and producers.
3. **Profit Motive**: The motive of earning profit is one of the most important drivers of a capitalist economy. In this system, all the companies are looking to produce and sell their products to consumers for earning maximum profit.
4. **Price Mechanism**: Under this system the demand and supply in the market will determine the production level and correspondingly the price set for the products without any kind of government involvement.
5. **Consumer Sovereignty**: In this the market is controlled by the demands of the consumer. It regulates the level of production undertaken by the companies and the consumer is free to decide which products to purchase.
6. **Free trade**: In this system, there exists low tariff barriers that promote international trade.
7. **Government Interference**: In a capitalist economy there is no government interference in the daily activities of the business. The customer and producers are

free to make their own decisions regarding any product or service.

8. **Flexibility in labour markets:** In capitalism there is flexibility in hiring and firing of the workforce.
9. **Freedom of Ownership:** In this system an individual can accumulate any amount of property and use it according to his will, after death the same property is passed on to the successors by the right of inheritance.

### **Advantages of capitalist economy**

The following are the advantages of capitalism

1. There is more efficiency in the capitalist economy as the products are produced according to the demand of the consumers.
2. There is lesser government intervention or bureaucratic interference.
3. Better scope for innovation as companies look to obtain a major part of the market with their offerings.
4. It discourages any form of discrimination, so that trade can take place between two parties without any barriers.

### **Disadvantages of capitalist economy**

1. Capitalism leads to inequalities in the income.
2. In capitalism, firms can get monopoly over workers and consumers.
3. A high profit earning motive of capitalist economy leads to using resources in such a way that it leads to environmental problems by destroying the natural balance.

### **Examples of Capitalist Economies**

1. Hong Kong
2. United Arab Emirates
3. Singapore
4. New Zealand
5. Australia
6. Canada
7. Switzerland
8. United Kingdom
9. United States
10. Ireland