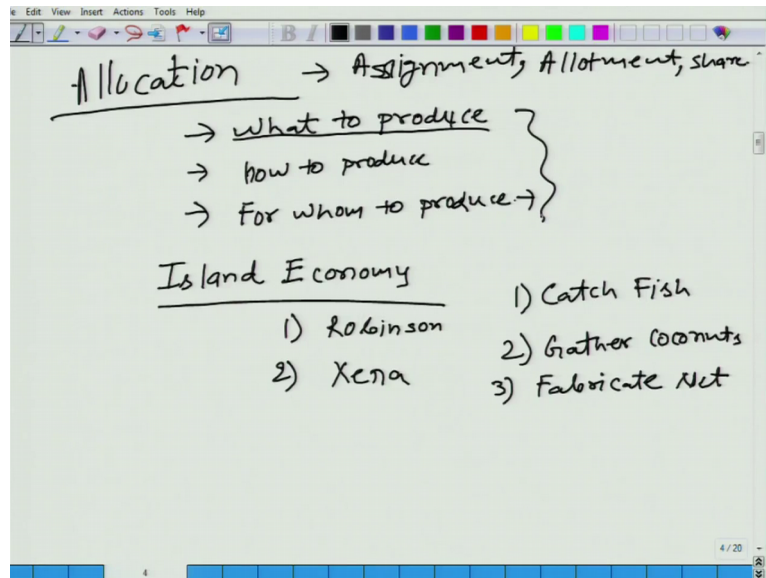


An Introduction to Microeconomics
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Lecture – 03

Basic Keywords: Allocation, and Command, Market and Mixed Economy

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When you do not have unlimited amount of everything, unlimited amount of resource to produce unlimited amount of all the goods that you desire, you will have to make a choice, what to produce? In wet what quantity you should produce a particular good. So, that leads to our the next term and that is allocation. So, what do we mean by allocation? Allocation is nothing but assignment, allotment, share, but in economics we are more technical about this particular term allocation.

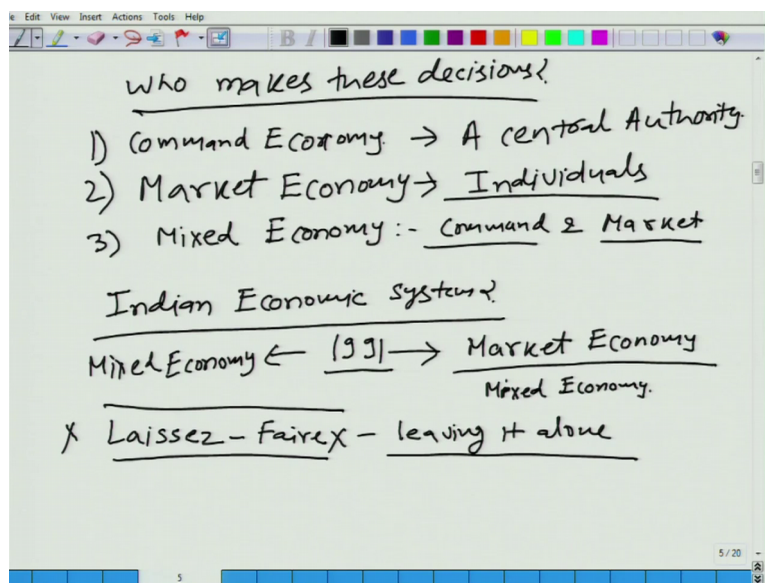
So, allocation here means solving these 3 fundamental or basic question of economics, and the first question is what to produce? The second is how to produce? And third is for whom to produce? So, let us talk about this question, first what to produce? Let us, look at to answer these 3 questions 1 by one starting with what to produce. Let us imagine a very simple economy we will time and again in this course we will to make our life simpler we will assume a very simple version of it. So, let us talk about island economy, this island economy is populated by only 2 individuals one is Robinson, Robinson Crusoe, and second is xena, xena the warrior princess named sari material just to make story interesting.

So, do not pay attention to names, just and there are only 2 activities on these island this island. The first activity is catch fish, and second activity is gather coconut. So now, of course, here no literal production is taking place, but again we will use it in a very loose sense the production here involves catching fish or 2 production activity, catching fish or gathering coconut. So now, the first question is how they would, what they would do should they devote all their time to catch fish or should they devote all their time for gathering coconuts, because see time here is scarce not scarce resource available to them.

So, if they spend all their time catching fish they would not be able to gather any coconut, or otherwise also if they spend all their time gathering coconut they cannot catch any fish. So, they have several options there devote part of the time to catch fish or devote all the time that they have to catch fish depending on their need. So, how this allocation involves making this decision what you produce.

The next is how to produce. Now let us bring just to understand let us bring the third activity, that they can take up is that they can fabricate net that would help them catch fish. So, how to produce involve are there are they going to use their bare hand to catch fish, or they are going to make net to catch fish. So, of course, this decision is about technology what kind of process they would use to produce these 2 items. And third is about once they have produced how they are going to allocate? How they are going to share? How they are going to give these collected coconuts and fish among themselves; Robinson and xena. So, these are the 3 fundamental questions.

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And depending on who makes these decisions we have different form of economy, who makes these decisions? So, let us look at something what we call command economy. In command economy essential authority typically, government some sort of government determines, how to produce? What to produce? And for whom to produce? So, government or a central authority is the decision-making body.

So, here individuals they do not have to make many choices government decides for the individual. The second we can think of is market economy. Here, as opposed to command economy here decisions are made by individuals. For example, let us say a farmer in west Bengal produces some rice, nobody tells him how he should produce what he should how he should where he should send his produce.

So, what is happening there the individual is deciding on his own about these allocation questions. Third is mixed economy, here it is somewhat a mixture of command and market-based economy. So, some decisions are made by central authority while some other decisions are left to individuals now think of it how would you categorize Indian economic system.

Do we have command economy? Or we have market-based economy? Or do we have mixed economy? Also it is good idea to think about what we had before 1991, and what we have after 1991 just to let you know earlier we had mixed economy, but heavily tilted towards command economy central planning, but after 1991 after economic liberalization we are slowly moving towards market based economy, but we are not yet there so, still we would say

I would say that we have mixed economy, but realistically speaking these are 2 extreme command economy, and market economy all the economies of this world we can say we can characterize them near to command economy or market based economy, but truly speaking none of the economies are purely command economy or purely market based economy.

One concept that I would like to emphasize here is laissez faire, this is a French word it means leaving it alone. So, what is what do we mean by leaving it alone? That here in laissez faire kind of economy of course, it is an extreme version of market economy where private parties are absolutely free from government interaction intervention such as tariffs, tax, regulations. So, individuals transaction they transact without any interference of the government. So, this is a concept an extreme concept that we typically do not find, but you would say you would see in newspapers talk about moving towards laissez faire or moving away from laissez faire.