

# ECONOMIC INSTITUTIONS



MA FINAL

## INTRODUCTION



- Every society needs to make effective use of the scarce resources. Goods and services have to be produced to meet the basic needs such as food, clothing, shelter, etc.
- Economic institutions are responsible for organizing the production, exchange, distribution and consumption of goods and services.
- Economic institution is also one of the basic institutions. For the sake of survival each society has an economic system ranging from simple to complex.

## DEFINITION



- Economy is the social institution that ensures maintenance of society through the production, distribution and consumption of goods and services.
- Economy is the social institution that organizes a society's production, distribution and consumption of goods and services.
- The economy system is the complex of interrelated institutions through which the economic activity of man is expressed.



- Goods are tangible objects that are necessary (such as food, clothing, and shelter) or desired (such as DVDs and electric toothbrushes).
- Services are intangible activities for which people are willing to pay (such as dry cleaning, a movie, or medical care).

- **Goods** are commodities ranging from necessities (food, clothing, shelter) to luxury items (cars, swimming pools, yachts).

## Goods



- **Services** are activities that benefit others (e.g. the work of priests, physicians, teachers, and computer software specialists).

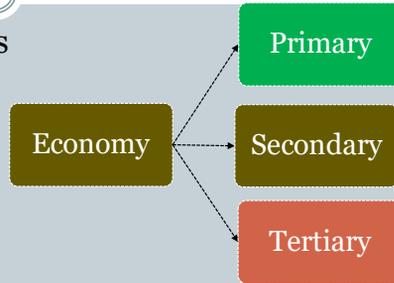
## Services



## Sectors of the Economy

- Economy has three sectors

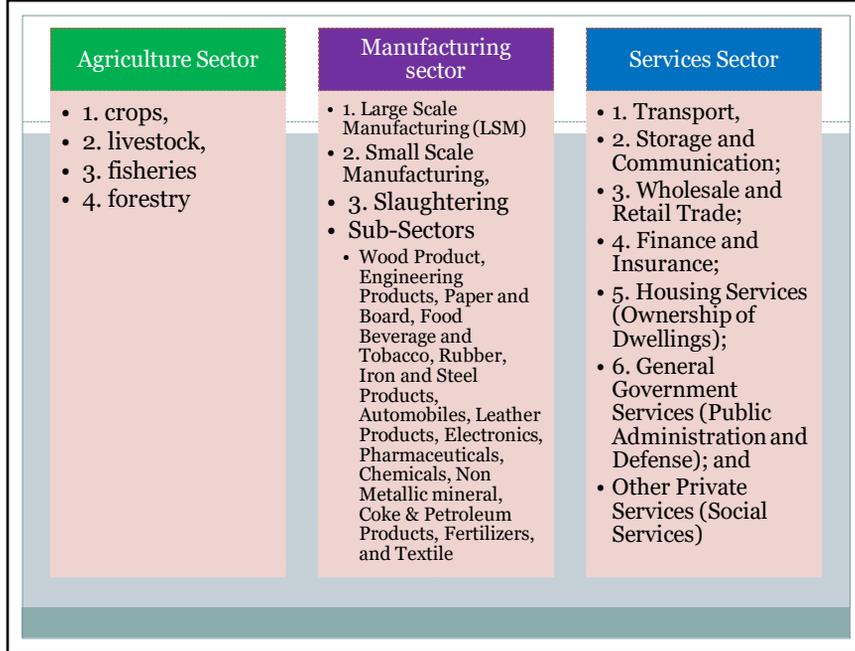
1. Primary Sector
2. Secondary Sector
3. Tertiary Sector



## SECTORS OF ECONOMY



- **PRIMARY SECTOR PRODUCTION**; the extraction of raw materials and resources from environment. (Agriculture, Raising Animals , Fishing, Forestry and mining)
- **SECONDARY SECTOR PRODUCTION**; the processing of raw material (from primary sector) into finished goods. For example, steel workers process metal ore; auto workers then convert the ore into automobiles, trucks, and buses.
- **TERTIARY SECTOR PRODUCTION**; the provision of services rather than goods. Tertiary sector production includes a wide range of activities, such as fast-food service, transportation, communication, education, real estate, advertising, sports, and entertainment.



## ECONOMIC STUCTURE

### 1. PROPERTY\* OWNERSHIP:

- An economic system is a system of production and exchange of goods and services as well as allocation of resources in a society.
- Property ownership is the key element of economic structure as it defines who owns and control the means of production(property):
- Three major economic systems during the Industrial Revolution:
  1. Capitalism
  2. Communism
  3. Socialism

\*Examples of property, which may be tangible or intangible, include automotive vehicles, industrial equipment, furniture, and land -the last of which is often referred to as "real property."

## PROPERTY OWNERSHIP

1. **Capitalism**; Economic system.
  - Believes in **individual** ownership and competition.
  - Freedom to succeed and freedom to fail
  - Private ownership of capital (means of production)
  - Profit is the motivator, competition is the regulator (not government)
  - Under pure capitalism, almost all goods would be provided by the private sector
  - “Survival of the fittest” --- only the strong survive in capitalism!

Theory: When everyone is selfish and concerned with personal profit, everyone will benefit.

## ECONOMIC STRUCTURE

- Communism ; Economic system.
- Believes in **collective** (group) ownership and a planned economy (**government** makes decisions).
- Theory: Everyone pools their **resources** and **labor** to **evenly** distribute everything.
  - Everyone gets an EQUAL amount of everything, regardless of how hard you work or don't work!
- “From each according to his ability, to each according to his need.”

Karl Marx – 1848 - “The Communist Manifesto”

Industrial Revolution – Europe – horrible working conditions - critique of capitalism

1. View of History – class struggle (bourgeoisie and proletariat)
2. Labor Theory of Value – all value comes from labor
3. Nature of the State – the state (government) always sides with the rich
4. Dictatorship of the Proletariat – poor must overthrow the government and set up a classless society

### Communism/Socialism: What's the difference?

- **Socialism is the stage **between** Capitalism and Communism.**
- **Nationalizes** the means of **production** (i.e. corporations, banks, raw materials, etc.) = gives control of them to the government
- **BUT: NOT** all are equal!
  - People are paid **wages** based on several factors (**social** need, difficulty of job, **amount** of schooling required, etc.), so not everyone will make the same wage.
  - Redistribution of income – high taxes on the rich to provide lots of government services

Characteristics	Capitalism	Socialism
Ownership of Property	Means of production owned by private individuals	Means of production owned by government or cooperatives
Consumer Prices	Prices determined by supply and demand by the owners. The pursuit of the profit is the reason for distributing goods and services.	Prices set by the government. Central committees plan production and set prices No profit motive in the distribution of goods and services.
Efficiency and Innovation	Free market competition encourages efficiency and innovation	Government-owned businesses have less incentive for efficiency and innovation
Taxation	Limited taxes based on individual income	High taxes necessary to pay for public services

Characteristics	Communism	Socialism
Basic Philosophy	From each according to his ability, to each according to his needs.	From each according to his ability, to each according to his contribution.
Economy Planned By	Central government	Central government
Ownership of Economic Resources	All economic resources are publicly owned and controlled by the government. Individuals hold no personal property or assets.	Individuals own personal property but a industrial and production capacity is communally owned and managed by a democratically elected government.
Class Distinction	Class less society	Classes exist but differences are diminished. It is possible for some people to earn more than others.
	China, Korea	Norway, Sweden, and Denmark

## 2. LABOUR FORCE

- The labor force is a fundamental component of every modern economy. All economic activities require labour to go into its process of production.
- The labour force is all people who are of working age, and able and willing to work, it means all those people that are working or actively looking for work.

Currently Active Population or labour force comprises all persons ten years of age and above who can be categorized as employed...(Pakistan Labour Force Suvery)

## LABOUR FORCE



- This may includes;
- the self-employed; earning income directly from one's own business, trade, or profession rather than as a specified salary or wages from an employer
- the employee ;a person who works for a public or private employer and receives remuneration in wages, salary, commission, tips, or in kind
- The unemployed; a person of working age, willing to work for an earning but fails to find a job

### 3. DISTRIBUTION OF PRODUCTION



The products are distributed among members of society by various groups called traders and businessmen.

## 4. ECONOMIC NORMS

The economic institutions have their respective norms by which they are controlled. The rules used in production, distribution and consumption of goods and services are economic norms.

## EXCHANGE VALUE

- The produced goods and services have their exchange value, which can be measured in cash or kind.
- The first known currency was used in 600 BC (Lydia, Turkey)
- Coins then evolved into bank notes around 1661 AD
- The first credit card was introduced in 1946
- Kind (in the form of goods and services)

## FUNCTIONS OF ECONOMIC INSTITUTIONS



**1. Power and Authority;** Power is the intentional influence over the beliefs, emotions and behaviours of people while authority refers to the formal power to act

- The economic resources provide power and authority to its holder.
- Wealth is a great power which authorizes one to hold control of various agencies, organizations and resources.

## FUNCTIONS OF ECONOMIC INSTITUTIONS



**2. Socialization;** refers to preparing newcomers to become members of an existing group and to think, feel, and act in ways the group considers appropriate.

- Economic institutions significantly socialize the members of the society through their respective norms. These norms are taught to the concerned members.



- The workplace is an agent of socialization—in some cases, resocialization. A new job brings with it new norms and values, including the following:
  - 1. What papers to fill out
  - 2. What equipment to use
  - 3. What tasks to complete and when to complete them
  - 4. When to arrive at work
  - 5. When to take a break
  - 6. When to leave

## FUNCTIONS OF ECONOMIC INSTITUTIONS



### **3. Need Satisfaction:**

- The major function of economic institutions is to fulfill the human needs for which they have developed.
- All the sectors of economy play an important part in this regard.
- Employment is very important for the economic survival of individuals. If employees receive adequate pay then their needs will be satisfied.



**4. Social stratification** ;refers to a system by which a society ranks categories of people in a hierarchy.

- The society is divided into different classes by the distribution of economic resources.
- Social inequality plays a vital role in the smooth operation of a society.

## FUNCTIONS OF ECONOMIC INSTITUTIONS



### **5. Income Generation and Employment:**

Economic institutions provide the opportunities to the people to earn their livelihood, through which people satisfy their basic needs.

### **6. Provision of Funds:**

- Economic institutions provide financial support to the other institutions like family, politics, education, etc. Without economic institutions these institutions cannot perform rather collapse.

## FUNCTIONS OF ECONOMIC INSTITUTIONS



**7. Division of Labour:** Economic institutions assign roles according to the skills, capacities and abilities of the people.

- Hence different roles are assigned to the different people and the specialization of job develops in society.



- Division of Labour means that the main process of production is split up into many simple parts and each part is taken by different workers who are specialized in the production of that specific part.
- *The Division of Labor in Society* is a book written, originally in French, by [Emile Durkheim](#) in 1893.
- Durkheim discusses how the [division of labor](#) is beneficial for society because it increases the reproductive capacity, the skill of the workman, and it creates a feeling of solidarity between people.

## ECONOMIC GLOBALIZATION



- Globalization; the trend toward greater economic, cultural, political, and technological interdependence among national institutions and economies.
- The worldwide movement toward economic, financial, trade, and communications integration.

## TRANSNATIONAL CORPORATIONS



- *Any corporation that is registered and operates in more than one country at a time; also called a multinational corporation.*
- A transnational, or multinational, corporation has its headquarters in one country and operates wholly or partially owned subsidiaries in one or more other countries.
- **Transnational corporations are** companies that produce goods or market **services in more than one country.**



- ***Conglomerates—combinations of businesses in different commercial areas, all of which are owned by one holding company.***



## PROS and CONS

- Improved living standards
- Bridging gap between nations
- Transfer and introduction of new technology
  
- Neo colonialism
- Environmental degradation
- Exploitation of less developed countries
- Market dominance
- Effect on local culture ( Westernization)



- A **profession is a prestigious white-collar occupation that requires extensive formal education.**
- Professions include the ministry, medicine, law, academia, architecture, accountancy, and social work.
- **Professions are high-status, knowledge-based occupations**
- **Occupations are categories of jobs that involve similar activities at different work sites**