

ECONOMIC (SECTION “C”)
B.COM. PART I

Q. Define Capitalism and also write its merits and demerits?

CAPITALISM:

Under capitalism all production is the property to private individuals and firms. They are free to use them with a view to making profit, or not to use them, if it suits them. The desire for profit is the sole consideration with the property of owners in the use of their property. Beside free and unfettered use of their property, every body is free to enter into any contract with other fellow-citizen for his profit.

What to produce, how to produce and for whom to produce-all these central problems of economics are settled by the free working of the forces of demand and supply.

SALIENT FEATURES OF CAPITALISM

1) RIGHT OF PRIVATE PROPERTY:

Every body has rights to acquire property keep it and after his death, to pass it on to his heirs, The result of the system in equalities of wealth distribution.

2) FREEDOM OF ENTERPRISE:

This Freedom Implies Three Things

- a) Freedom of Enterprise
- b) Freedom of Contact
- c) Freedom of use one's property

Every body is free take up any occupation that he likes and enters into agreements with his fellow-citizens in a manner most profitable to him. Every citizen has freedom to form any firm or company and set up a factory anywhere he likes.

3) FREEDOM OF CHOICE BY THE CONSUMERS:

Every consumer enjoys a freedom of choice of the commodities and services that he wishes to consume. It is the consumer's likes and dislikes which determine the magnitude and pattern of production.

4) PROFIT MOTIVE:

The profit motive of individual governs business enterprise. Those commodities and services are produced under capitalism, which are expected to yield maximum profit rather than social benefits.

5) CLASS-CONFLICT:

The society has been divided into two classes. The "Haves" and the "Have-nots" which are constantly at war with each other. Class's conflict is inherent in capitalism.

6) ENTREPRENEUR'S ROLE:

The entire productive machinery of the country is under the direction of the entrepreneur. It is he who hires the other factors of production and undertakes to pay them.

7) COMPETITION:

The producer completes with one another selling the commodities as such as they can through advertisement. On the other hand there is also competition among the buyers to obtain the commodity that bid against one another and prefer higher prices for the purpose. Similarly there is competition among workers for jobs.

8) IMPORTANCE OF PRICE SYSTEM:

Capitalism is said to be governed by price. It is the price, which equates the demand and supply of commodities and factor of production. Price is a signal, which guides the producer as to what to produce and what not to produce. A higher price is also warning the consumer to cut down their consumption.

MERITS OF CAPITALISM

1) AUTOMATIC WORKING:

Capitalism does not require any central directing authority for its functioning. It functions automatically through the price mechanism. If at anytime there is some disturbance in the economy. It is rectified through price change.

2) HIGHER EFFICIENCY AND INCENTIVE TO HARD WORK:

Under capitalism worker and entrepreneurs are encouraged to work hard to earn higher profit and higher wages. Hence the entire manpower resources of the country work the hardest. In this way the national output increases and economic development is accelerated.

3) HIGHER RATE OF CAPITAL FORMATION:

People under capitalism have the right to hold property and pass it on to their heirs. According to this people save a part of their income so it can be invested to earn more income and leave larger property to their heirs. This accelerates economic growth.

4) ECONOMIC DEVELOPMENT AND PROSPERITY:

The loss of profit compels the entrepreneurs to take risk, and to conquer new fields in production. Capitalism offers great incentive for saving and large opportunities for investment, it encourages innovation and technical progress. It is thus, conducive to economic growth and prosperity.

5) OPTIMUM UTILIZATION OF RESOURCES:

Every producer and entrepreneur tries to use the productive resources at his disposal in the most economical manner in order to make maximum profit. In this way capitalism encourages the most efficient use of the resources of the country.

6) ENCOURAGEMENT TO ENTERPRISE:

Capitalism encourages the entrepreneurs to take risks and adopts good policies. Higher the risk, greater is the profit. They also make innovations in order to cut their costs and maximize their profits. Hence capitalism brings about a great technological progress in the country.

DEMERITS OF CAPITALISM

1) WASTEFUL COMPETITION:

Competition is a super waste. Huge expenditure is incurred in advertisement and salesmanship simply to defeat a rival. Resources employed by those, who are defeated go to waste.

Competition results in the production of too many varieties. But too much variety is wasteful. Because a small variety, but large in quality, can be more economically produced.

2) HUMAN WELFARE IGNORED:

The economic decision made by individual entrepreneur and producer under capitalism based on their self interest and not from the point of view of good society. However, necessary and useful the commodity may be, the producer will not produce it if price does not exceed the cost, because it is only the profit motive which drives them. Social welfare is ignored although.

3) ECONOMIC INSTABILITY AND UNEMPLOYMENT:

Production is unplanned and is being augmented by ever increasing accumulation of capital. While the bulk of consumers are being impoverished more and more. The result is economic instability. The workers have to live under a personal fear of losing job. They have no sense of security.

4) CLASS CONFLICT:

Capitalism divides the society into hostile camps of capital labor, the "Have" and "Have not". The labor wants higher wages and short working hours, which is against the interest of capitalists. Strikes and lockout are inevitable.

Q. Define Socialism and also write its merits and demerits?

SOCIALISM:

Socialism is an economic system, which implies state ownership of instrument of production. The management of business industry is reduced to them monopolist control of the government. What is produced is equally divided among those who helped in production rather than having any thing into profit. Thus economy is run under social benefit rather then private profit

SALIENT FEATURES OF SOCIALISM

1) STATE OWNERSHIP OF MEANS OF PRODUCTION:

The means of production are the property of the state and not private individuals. The profits of all enterprises go to the state exchequer (national treasury) to be utilized for the benefit of the society rather than for the benefit of a few private individuals.

2) NO PRIVATE ENTERPRISE:

Production to be initiated and conducted by the state, which will pay wages and other cost and keep profits to itself. Interest and rent as payment respective to the capitalist.

3) ECONOMIC EQUALITY:

Remuneration for work is to be according to the nature of work and is not to be equal. Earning will vary according to the ability of the people in socialism.

4) QUALITY OF OPPORTUNITY:

Every individual whether he belongs to a rich or poor family has equal opportunity to rise in life under socialism. Every young person opportunity to receive education or training according to his attitude so that he can enter in a profession of his choice.

5) ECONOMIC PLANNING:

The state is in charge of both production and distribution. The allocation of the productive resources of the community will be determined according to the direction of a central authority.

6) CLASS-LESS SOCIETY:

The socialist believes in a class less society where the distinction between the rich and the poor and the "Have" and the "Have-nots" has completely disappeared.

MERITS OF SOCIALISM

1) SOCIAL JUSTICE:

Under socialism, the inequalities of income are reduced to the minimum and the national income is more equally and evenly distributed.

2) BETTER ALLOCATION OF RESOURCES:

The productive resources of the nation are more economically and optimally allocated among the various productive areas. A central planning authority determines the allocation of resources among the various user who is in better position to assess the basis needs of the people and the intensity of their desires,

3) RAPID ECONOMIC GROWTH:

A socialist state promotes rapid economic growth. The task of promoting economic growth is not left in the hands of free private enterprise or market mechanism. A socialist state adopt economic planning and makes it possible to use potential productive resource in the most effective and fruitful manner.

4) IMPROVING PRODUCTIVE EFFICIENCY:

Under socialism, improved technique of production and scientific research are made freely available to all the organization that may need them. Under socialism, concentrating production in big firm results in improvement of production technique. A socialist state makes the full use of productive activity.

5) SOCIAL SECURITY AND WELFARE:

The socialist believe the people that should be given protection uncertainties to income, work and living conditions and the burden of this provision should be borne by the entire society. That is why modern socialist include in their program schemes of social insurance covering unemployment, accidents, sickness, old age pension, death grants etc.

6) ECONOMIC STABILITY:

Socialism eliminates trade cycle. We do not come across depression unemployment and idle productive capacity in socialist economic. Since the means of production are owned and controlled by the state. The level of investments and the level of aggregate demand can also be effectively determined. This ensures economic stability.

7) EQUALITYO OF OPPORTUNITY:

Every individual whether he belongs to a rich family or a poor and equal opportunity n rise of life under socialism. Every young is given equal opportunity to receive or training according to the attitude so that he can enter a profession of his choice.

DEMERITS OF SOCIALISM

1) NOT SUCCESSFUL IN BUSINESS:

The government personal is not such as they can conquer new fields. The government can and does attract able men but conditions in government's services are not congenial for the display of extraordinary ability.

2) INSUFFICIENT OF RESOURCES:

It is also urged that government con not raise the urged amount of capital, which are necessary for the efficient running, and expanding of all industries and trades.

3) LOSS OF ECONOMIC FREEDOM:

A serious charge against socialism is that when freedom of enterprise disappears, even the free choice of occupation will go, worker will be assigned certain jobs and they cannot change them without the consent of the planning authority.

4) LACK OF INCENTIVES:

It is also feared that incentive to hard work and stimulus self-improvement will disappear altogether when personal gain or self-interest is eliminated. Incentive ability, enterprising spirit and the go-ahead attitude will go depression.

5) CONCENTRATION OF POWER IN THE STATE:

Under socialism the state is not merely a political authority but it also exercises unlimited authority in the economic sphere. The state is everything and individual is nothing. He may not count at all.

Q. Define the Economic System of Pakistan? OR Define Mixed Economy System?

CONCEPT OF MIXED ECONOMY

Mixed economy is an economic system combine in itself the elements of socialism as well as capitalism, it is an economic system, which is planned and directed partly by the state and partly by private enterprise. Under the "Mixed capitalism" or "Mixed Enterprise System", both public and private institution exercise economic control

PRIVATE VERSUS PUBLIC OWNERSHIP

Neither private nor public ownership business is 'perfect' for all circumstances. Every country's system is to some extent 'mixed'. Both capitalism and socialism have their defects. A privately owned capitalist system cannot guarantee the elimination of the poverty. It may lead to unequal distribution of wealth, air and water pollution. It produces trade cycle i.e. sometime depression and at other time an inflationary situation on the other hand a government owned business system may stop innovation an invention and also limit the freedom of the people.

It is also realized that economic development cannot be achieved at the desired rate if growth without any active government help and become mixed economies.

SALIENT FEATURES OF MIXED ECONOMY

1) CO-EXISTANCE OF PUBLIC AND PRIVATE SECTOR:

In this economics system, both public sector functions together. The private sector comprises those business units which are owned, managed and controlled by private enterprise. The public sector on the other hand, comprises all those units and comprises which are owned managed and controlled by the stat. Agriculture in a mixed economy is generally consider to be a part of the private sector where the farmer is let free to grow the crops he likes, although the government may attempt to regulate agricultural production through executive authorization.

2) ROLE OF PRIZE SYSTEM AND GOVERNMENT DIRECTIVES:

So far as the public sector is concerned economics decision relation to production, price and investment are more by the government authorities appointed by the government, in industries in the private sector the decision regarding investment private enterprises with the object of making maximum profits on the basis of the price system make production, price etc.

3) GOVERNMENT REGULATIONS AND CONTROL OF PRIVATE SECTOR:

In the mixed economy the governments adopts necessary measures to regulate and influence the private sector. So that it may function on the interest of the nation rather than exclusively in the interest of the private entrepreneur.

4) CONSUMER'S SOVEREIGNTY PROTECTION

The consumer's are free to buy commodities of their choice and the private entrepreneurs produced commodities according to consumer demands or preference, although the government can control their price in public interest so that they can be prevented from rising un-duly high. Beside the government can also ration the commodities in short supply so that the limited available quantities can be fairly distributed.

5) GOVERNMENT PROTECTION OF LABOUR:

In a mixed economy, government saves labor from exploitation by the capitalists. Several factory acts have been passed to regulate the working condition of labor. The government also takes necessary state to prevent industrial disputes.

6) CONTROL OF MONOPOLY:

A charge against monopolies is that they reduce output to raise prices in order to get profit leading to miss-allocation of productive resources of the community, economic inequalities, un-employment and slow movement of industrial development.

The government tries to control and regulates monopolies in order to remove the above evils and make the function in public interest. Also when the government considers it necessary in public interest, it takes over monopolies and operates them in public interest.

- Q.** “Economic System of Islam is the best of all economic system”. Give arguments in favor of this statement. Enumerate the silent features of an Islamic economic system.

GOALS OF ISLAMIC ECONOMIC SYSTEM **OR** **ISLAMIC ECONOMIC SYSTEM**

Islamic economic system is a divine system which is given by Allah in Holy Book Quran and explained in Hadith by Holy Prophet Muhammad (Peace be upon him). This system has all the merits of Capitalism and Socialism and do not have any demerit of any of them. It advocates the welfare of the masses at large wants to eliminate all the social and economic evils from the society so that material welfare of the people may increase and people may have healthy and prosperous life. It emphasizes the fulfillment of all basic necessities of the life without any undue restriction.

CHARACTERISTICS

1. It allows right of private property, which is allowed in capitalism but not allowed in socialism.
2. It does not allow concentration of the wealth in few hands, which is allowed in capitalism but not allowed in socialism.
3. It allows freedom of occupation, a person can adopt any profession of his choice in which he is more capable, which is allowed in capitalism but not allowed in socialism.
4. It stresses on equal distribution of national wealth so that all people may fulfill their basic necessities of life properly.
5. It allows price system and its mechanism but prices should not be unjust and exorbitant and consumers should not be exploited. It is against the profiteering, hoarding, black marketing and smuggling of the goods.
6. It does not allow interest. The loan should be on the basis of Qarz-e-Hasna. Profit on the money lent should take in the form of Modaraba and Musharka mode of investment.
7. It allows to earn profit with established business norms and do not allow the business of Haram items such as wine production, gambling, or with which the moral values of the people diminishes. Production and supply of these goods and services are allowed in both socialism and capitalism.
8. It permits the inheritance system but do not allow “Death-Duty”.
9. It forbids unnecessary competition to destroy each other and the natural resources are wasted for nothing.
10. It allows free consumption of goods and services as per reasonable need of consumers but scrupulous and pomp and show consumption is not permitted.
11. It introduces Zakat and Ushra system so that requirement of the needy persons is fulfilled and wealth is not accumulates in the hands of lucky few. It emphasizes the payment of Zakat, Fitra and Ehsan for the welfare of all the people of the society. This increases the total consumption and business activity in the economy and there appears no slump and depression in the economy.
12. There is no class conflict in Islamic economic system, because it advocates Adal and Ehsan, Sakhawat and payment of Zakat to the needy people of the society.

MEANING OF ZAKAT

The word ‘Zakat’ literally means purification. By purification is meant the purification of soul, character, life and wealth. Purification thus covers all the aspects of human life. Technically ‘Zakat’ is a compulsory tax which is imposed on the wealthy Muslim people for providing social justice to the community. In Holy Quran, there are three words which have been repeatedly used for alms and charity for the poor. They are Sadaqat, Infaq and Zakat. The first two, i.e. Sadaqat and Infaq are optional. The third one ZAKAT is compulsory tax on wealth of the Muslim members of the state alone. Zakat may be given to the following persons.

- a) Poor people
- b) Needy people
- c) The new Convertee into Islam
- d) Freeing of slaves
- e) Debtors

OBJECTIVES OF ZAKAT

1. Purification of Soul: Zakat purifies the soul of contributor from the evils of miserliness. It makes them humble and God-fearing.
2. Healthy growth of the community: the payment of Zakat leads to the healthy growth of the community. The amount collection through Zakat is spending for the uplift of the less fortunate member of the society.
3. Mobilization of resources: Zakat is the hub of Islamic public finance. It is the chief source of income of the state which is spent for the greater benefit of the society by the state and rooting out poverty.
4. Right of Poor: Payment of Zakat is the divine order. It is, therefore, the right of the poor to get share from the wealth of the rich in a Muslim society.
5. Enemy of hoarding: Zakat is also levied on the hoarded wealth. Due to fear of God and the fear of the Day of Judgment, the Muslims are supposed to declare their hoarded wealth, which is subject to Zakat, therefore, is the enemy of hoarding.

CONCEPT OF WAGE IN ISLAM

The following few points should be held in mind while determination of wages

1) MUTUAL AGREEMENTS:

Wages should be determined by the mutual agreement between employees and employers.

2) THIRD PARTY:

Sometimes a neutral party is set up by mutual agreement for the solution of the problems. Third party should be impartial and just. So that the laborers and producer may be satisfied about the solution.

3) PAYMENT BEFORE THE PERSPIRATION OF THE LABORER DRIES UP:

Islam is economic system recognizes the due rights of the laborers as well as their due wages "pay the wages to the laborers before his perspiration dries up."

4) REASONABLE WAGES:

Wages equal to the value of their marginal production i.e. reasonable wages. Marginal production means that amounts of production which is made by a marginal worker where marginal cost equals to marginal revenue. So this amount of wages will be acceptable for both producer and laborer. To sum up wages should be given at least equal to the production made by the laborer.

Q. Why Interest Is Prohibited In Islam?

Interest is that additional income or unearned increment made to capitalist without laborer. It leads to grow the capital on concentration capital in a few hands that deprives of the poor people so it is not justified but it is condemned in Islam and it is prohibited in Islam due to the following reasons:

1. As matter of principle it is enough for Muslim to know that interest is “Haram in Islam. It is order of the Allah that should be obeyed.
2. There may be a profit or loss in a business, but interest is always in the shape of profit in an interest-based economy. The capitalist never suffer a loss. Capitalist always goes on increasing and is concentrated in a few hands. The distributions of wealth become unearned in the society. The rich and the poor classes are created and then the struggle between the haves and have not starts.
3. It makes the capitalist greedy and selfish. These remain no love and fellow feeling between the capitalist and laborer.
4. Interest creates concentration of wealth in a capitalist society. The capitalist rule over the market. The also effect on prices.
5. Interest is a compulsory payment prices go high because of interest. The whole society is affected by it.
6. Those who plead that” Commercial interest” is not forbidden in Islam are wrong. It is affected by it.

Because of those are similar, earns interest has been made Harm, here it is prohibited. Many evils of capitalism are eradicated by prohibiting interest and there remains no room for unnatural system of socialism.

Q. Differentiate between the following:

ZAKAT	TAX
<ol style="list-style-type: none"> 1. Zakat has been imposed as a religious rite to be performed by Muslim who are 'Sahib-e-Nisab'. 2. It is an obligatory payment to be made by Muslim. 3. Zakat is imposed on cash and kinds of individuals unused for one year. 4. There are three kinds of Zakat. Ushar and Khums. 5. Zakat is collected on fixed rate basis and proportionate in character. 6. Zakat collected by the State is to be spent for the welfare of the invalid poor and destitute (without food and shelter). It is restricted by the Holy Quran. 7. The amount of Zakat payable is not to be waived. 	<ol style="list-style-type: none"> 1. Tax is imposed by the Government on citizen of the State. 2. It is a compulsory payment to be made by the citizens to the State. 3. Tax is levied on income as well as on expenditure of the individual. 4. There are two kinds of taxes Viz direct and indirect tax. 5. The rate of tax varies. It may be progressive, proportionate and regressive in character. 6. Tax collected by the Government is spent to meet administrative and defence expenditures. Small amount of tax is spent for the welfare of tax-payer. 7. This imposed on a person is subject to revision. It can be waived by the government.

ISLAMIC ECONOMIC SYSTEM	CAPITALISM
<ol style="list-style-type: none"> 1. For Islam Allah is the owner of all the wealth of this World and man is custodian. 2. There is Zakat and Ushar system which control distribution of wealth. 3. Interest is not allowed in Islamic Economic System. 4. There are certain restrictions in trade such as Haram and Halal. 5. Islam reduces the gap between poor and rich. 6. Individual freedom is allowed within the spiritual framework of the society. 7. It discourages accumulation of wealth. <p>Islam preaches for the life in the world. Hereafter and disapproves excessive their government in wordy affairs and in materialist pursuits.</p>	<ol style="list-style-type: none"> 1. In capitalism it does not consider so. 2. There are no such systems. 3. Interest is allowed in Capitalism. It is its backbone. 4. There are no restrictions in trade in Capitalism. 5. It increases gap between poor and rich. 6. Individual freedom is allowed without limitation. 7. It encourages accumulation of wealth. 8. It does not follow the ideas of life in the world hereafter through the Christianity preaches it.

ISLAMIC ECONOMIC SYSTEM	SOCIALISM
<ol style="list-style-type: none"> 1. It is based upon the owner-ness of the Allah and his supreme authority. It follows the code of the life framed according to the Holy Quran and the Sunnah. 2. It recognizes private of the property acquired by the lawful means and provide protection to the life and property of the individuals. 3. There is no class distinction all member of society have the equal rights and the obligation common concept of the brother hood. 4. From the Islam point of view in additional to the factors of the production the weaker elements have a secondary right on the wealth of the economy in the form of Zakat. 5. Head of an Islam state is not supreme authority he does not enjoy dictatorial power he is considered a public revenant and not the ruler. 	<ol style="list-style-type: none"> 1. It denies the existence of Allah and the supremacy of any invisible and it follows a man made code of life which had proved defective and the imperfect as it negates human values. 2. It advocates that every thing must be belonging to the state and individual has no right to own and acquire personal property. The state takes all the responsibility of the making provision for the food shelter and clothes of the people. 3. There is no class distinction as we find under capitalism but there are two distinct groups via the ruler and rules the latter services at the mercy of the farmer. 4. Under the socialist economy since there is only one factor of production labors alone is considered to have a right to wealth which it gets in the shapes of the ways. 5. The state enjoys unlimited power the ruling party is the supreme authority of the socialist state.