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Economic system. Changes in economic situation of Russia

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# 1. Economic system

An economic system is a mechanism (social institution) which deals with the production, distribution and consumption of goods and services in a particular society. The economic system is composed of people, institutions and their relationships to resources, such as the convention of property. It addresses the problems of economics, like the allocation and scarcity of resources.

## 1.1 The division of economic systems

There are several basic and unfinished questions that must be answered in order to resolve the problems of economics satisfactorily. The scarcity problem, for example, requires answers to basic questions, such as: what to produce, how to produce it, and who gets what is produced. An economic system is a way of answering these basic questions. Different economic systems answer them differently.

There is often a strong correlation between certain ideologies, political systems and certain economic systems (for example, consider the meanings of the term "communism"). Many economic systems overlap each other in various areas (for example, the term "mixed economy" can be argued to include elements from various systems). There are also various mutually exclusive hierarchical categorizations.

The basic and general economic systems are:

* Market economy (the basis for several "hands off" systems, such as capitalism).
* Mixed economy (a compromise economic system that incorporates some aspects of the market approach as well as some aspects of the planned approach).
* Planned economy (the basis for several "hands on" systems, such as socialism).
* Traditional economy (a generic term for the oldest and traditional economic systems)
* Participatory economics (a recent proposal for a new economic system)

An economic system can be considered a part of the social system and go home hierarchically equal to the law system, political system, cultural system, etc.

## 

## 2. List by hands-on and hands-off

Typically, "hands-on" economic systems involve a greater role for society and/or the government to determine what gets produced, how it gets produced, and who gets the produced goods and services, with the stated aim of ensuring social justice and a more equitable distribution of wealth (see welfare state). Meanwhile, "hands-off" economic systems give more power to certain private individuals (or corporations) to make those decisions, rather than leaving them up to society as a whole, and often limit government involvement in the economy.

The primary concern of "hands-on" economic systems is usually egalitarianism, while the primary concern of "hands-off" economic systems is usually private property. Libertarians target individual economic freedom as a primary goal of their "hands-off" policies.

The following list divides the main economic systems into "hands-on" and "hands-off," it attempts to structure the systems in a given section by alphabetical order and in a vertical hierarchy where possible.

**3. Types of economic systems**

**3.1. Market economy**

A market economy (also called a free market economy or a free enterprise economy) is an economic system in which the production and distribution of goods and services take place through the mechanism of free markets guided by a free price system. In a market economy, businesses and consumers decide of their own volition what they will purchase and produce. Technically this means that the producer gets to decide what to produce, how much to produce, what to charge to customers for those goods, what to pay employees, etc., and not the government. These decisions in a free-market economy are influenced by the pressures of competition, supply, and demand. This is often contrasted with a planned economy, in which a central government decides what will be produced and in what quantities.

No pure market economy exists. Thus, almost all economies in the world today are mixed economies which combine varying degrees of market and command economy traits. For example, in the United States there are more market economy traits than in Western European countries.

**3.2. Mixed economy**

A mixed economy is an economy that has a mix of economic systems. It is usually defined as an economy that contains both private-owned and state-owned enterprises[1] or that combines elements of capitalism and socialism, or a mix of market economy and command economy.

There is not one single definition for a mixed economy, but relevant aspects include: a degree of private economic freedom (including privately owned industry) intermingled with centralized economic planning (which may include intervention for environmentalism and social welfare, or state ownership of some of means of production).

For some states, there is not a consensus on whether they are capitalist, socialist, or mixed economies. Economies in states ranging from the United States to Cuba have been termed mixed economies. By most definitions, Canada could be referred to as a mixed economy, as Canadian health care is nationalized in order to provide health care free of charge.

**3.3. Planned economy**

A planned economy (also known as command economy and centrally planned economy) is an economic system in which the state or government controls the factors of production and makes all decisions about their use and about the distribution of income. In such an economy, the planners decide what should be produced and direct enterprises to produce those goods. Planned economies are in contrast to unplanned economies, i.e. a market economy, where production, distribution, and pricing decisions are made by the private owners of the factors of production based upon their own interests rather than upon furthering some overarching macroeconomic plan.

A planned economy may either consist of state owned enterprises, private enterprises who are directed by the state, or a combination of both. Though "planned economy" and "command economy" are often used as synonyms, some make the distinction that under a command economy, the means of production are publicly owned. That is, a planned economy is "an economic system in which the government controls and regulates production, distribution, prices, etc." but a command economy, while also having this type of regulation, necessarily has substantial public ownership of industry. Therefore, command economies are planned economies, but not necessarily the reverse (example: Nazi Germany's private ownership yet use of the Four Year Plan could construe them as a planned economy, but not necessarily a command economy, while the Soviet Union with public ownership would be a command economy).

Important planned economies that existed in the past include the economy of the Soviet Union, which was for a time the world's second-largest economy. Beginning in the 1980s and 1990s, many governments presiding over planned economies began deregulating and moving toward market based economies by allowing the private sector to make the pricing, production, and distribution decisions. Although most economies today are market economies or mixed economies, planned economies exist in some countries such as Cuba and North Korea.

**3.4.Traditional economy** http://en.wikipedia.org/wiki/Planned\_economy - \_note-2#\_note-2

## A traditional economy is an economic system in which resources are allocated by inheritance, and which has a strong social network and is based on primitive methods and tools. It is strongly connected to subsistence farming. In the majority of countries traditional economy has been replaced by command economy, market economy or mixed economy. However, it is found today mainly in underdeveloped, agricultural parts of South America, Asia, and Africa. There are some advantages and disadvantages in a traditional economy. Advantages: a traditional economy fosters the sense of community, as it causes little friction among members and provides a sense of security and psychological comfort. Subsequently, there is a relatively low unemployment rate and low crime rate. A traditional economy allows for a greater degree of autonomy as no money or little is given to the government and there is no competition. Disadvantages: a traditional economy does not allow for much economic growth and development as changes are very slow and there is a lack of social mobility. A traditional economy does not take advantage of technology and there is relatively little promotion of intellectual and scientific development. With no incentives for entrepreneurs, the consumer choice is diminished, which leads to a lower standard of living.

**3.5. Participatory economics**

Participatory economics, often abbreviated parecon, is a proposed economic system that uses participatory decision making as an economic mechanism to guide the allocation of resources and consumption in a given society. Proposed as an alternative to contemporary capitalist market economies and also an alternative to centrally planned socialism or coordinatorism, it is described as "an anarchistic economic vision". It emerged from the work of activist and political theorist Michael Albert and that of radical economist Robin Hahnel, beginning in the 1980s and 1990s.

The underlying values that parecon seeks to implement are equity, solidarity, diversity, and self-management. It proposes to attain these ends mainly through the following principles and institutions:

* workers' and consumers' councils utilizing self-managerial methods for decision making,
* balanced job complexes,
* remuneration according to effort and sacrifice, and
* participatory planning.

**4. Changes of an economic situation in Russia**

**4.1. Recent economic developments**

A booming domestic market continues to drive strong economic growth in Russia. Substantial net capital inflows have now joined receipts from resource exports in fueling domestic demand. In this context, the pace of economic growth has accelerated since the second quarter of the year. Annual GDP growth could reach 7.0 percent. Fixed capital investment and FDI have also exhibited impressive growth. The economic expansion continues to be concentrated primarily in non-tradable sectors of the economy that have profited from a stronger ruble. Stagnating production, high investment needs, and rapidly-growing domestic demand are raising increasing concerns about the state of the Russian energy sector.

Following the stabilization of oil prices, Russia’s large current account surplus has finally begun to contract. Yet a stronger capital account has somewhat compensated for this trend, supporting the continued accumulation of foreign reserves, albeit at a slower pace. Rapid growth in money supply and higher federal expenditures in 2006 have been largely absorbed by higher-than-expected economic growth. Inflation has slowed considerably in the second half of the year. The planned 2007 budget foresees an expansion of federal expenditures of 0.9 percent of GDP, with priorities in additional expenditures going to the state apparatus, investment and social programs.

Real incomes of the population, wages, and retail trade have been growing in double digits, significantly outpacing GDP growth. Consistent with this picture, import growth soared to 29 percent for the first three quarters of the year.

Recent policy initiatives of the government include a planned package of measures aimed at promoting diversified growth and the innovation economy and new legislative initiatives on migration. A long awaited bilateral agreement with the United States could pave the way for Russia’s accession to the WTO in the near future.

*Main Macroeconomic Indicators*

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| --- |
| 2001 2002 2003 2004 2005 2006  GDP growth, % 5.1 4.7 7.3 7.2 6.4 6.5  Industrial production growth, y-o-y, % 4.9 3.7 7.0 8.3 4.0 4.3  Fixed capital investment growth, %, y-o-y 8.7 2.6 12.5 10.9 10.5 12.6  Federal government balance, % GDP 3.0 2.3 1.7 4.2 7.5 8.6  Inflation (CPI), % change, y-o-y 18.6 15.1 12.0 11.7 10.9 7.5  Current Account, billion $ 35.1 32.8 35.9 60.1 86.6 79.9  Reserves (including gold) billion $, end-o-p 36.6 47.8 76.9 124.5 182.2 272.5 |

Active vocabulary

wrong

to withdraw

a credit

deposits

an order

from business

to announce

batch

to discover

correct

move

broadcast

to allege

to exploit

chairman

to deny

subcontractor

to cover

to be half way

through

as to me

to my mind

journal

numerous

appraisal

to be of help

to refresh