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Wahid Ahmad Wahab Zadeh
Ph.D. Student, Department of
Economics, RIMT University,
Punjab, India

Bashir Ahmad Naseri
Ph.D. Student, Department of
Management, RIMT
University, Punjab, India

Dr. Vishal Vinayak
Assistant Professor
RIMT University
vishalvinayak@rimt.ac.in

Corresponding Author:
Wahid Ahmad Wahab Zadeh
Ph.D. Student, Department of
Economics, RIMT University,
Punjab, India

The inability of the market economy to create economic balance and the necessity of government intervention for aggregate demand (Case study of Herat province, Afghanistan)

Wahid Ahmad Wahab Zadeh, Bashir Ahmad Naseri and Dr. Vishal Vinayak

Abstract

Government intervention in the economy is one of the controversial issues that has been debated in different eras and different views have been presented about it. The differences between these views can be examined in the form of various theories of different schools of macroeconomics and development strategies. For nearly two decades, the country's economy has been governed by a market economy. Since the society of Afghanistan is traditional and operates on the basis of traditional economy, the market system is more utilitarian. The government should launch plans, intervene and explain their failures and successes in achieving goals such as efficient resource allocation, full employment, and social goals such as eliminating poverty, improving income distribution, and changing demand as a whole. In this article, first, the market economy-based framework is described and also, the opinions of thinkers who agree with government intervention in total demand management are discussed and evaluated. Finally, while explaining the inability of the market mechanism, some suggestions for government intervention in the economy is presented in order to drive aggregate demand.

Keywords: market economy, disability, government intervention, system

Introductions

The market economy, also known as the economy market, is an economic system in which the production and distribution of goods and services are governed by a free market mechanism, driven by supply and demand at a free price, rather than programmed markets. The main feature of this economic system is that investment decisions, or the allocation of basic goods, are made primarily through capital and economic markets. In a market economy, producers and consumers decide for themselves what they produce or buy; in economics, on the other hand, the government decides on the type and quantity of goods produced. In a market economy, no central coordinator directs operations, but from a theoretical point of view, a self-coordinating system organizes the complex interaction of supply and demand and determines the prices of a number of goods and services.

Centralized economic system

The centralized state economy is opposite to the market economy. This type of economic system is run from a central circle and the government manages all economic activities. The communist system is an example of a centralized economy. In this system, although the class gap between rich and poor is small, corruption is more prevalent than ever. Also, in this system, one cannot predict future investments or production policies. Another issue in this system, which is always highlighted by experts, is the equal distribution of wealth between those who work hard and those who have no share in society. In practice, no country has a 100% centralized system. The same is true in the market economy, which means that basically both economic systems in their purely theoretical nature exist but do not exist practically in the real world at present in Afghanistan, whether in the monarchy, or in the Republic of Dawood Khan, or In the communist system, the economy has always been in the hands of the government. But since 2002, according to Article 10 of the Constitution, the economic system of Afghanistan has changed to a free market system. One of the goals of countries that support the free market system is to create a middle class, which should also be the case in Afghanistan.

However, competitive market does not mean that the government should not play any role in the economy, the government should continue to expand its regulatory role, in this regard, and the following issue related to the inability of the market economy to create economic balance and the need for government intervention to direct the aggregate demand.

Importance and necessity of research

Economy is the basic pillar of a society, market economy means an economy in which the government has no role in production, sales and distribution but is present as a guiding factor in the market and the economy is controlled by market factors i.e. sellers and buyers. Market economy can be considered as the most transparent type of economy and this issue causes not only more economic activity but also lower prices. Most market economy policies support consumer satisfaction and healthy competition. The current economic situation of the Afghan people is indicative of poverty or a low level of society, but the opposite group, who make up the rich class of society, have a myriad of incomes through different ways. People are not influential, however, the lower levels will be the most affected people, so due to the mentioned problems, it was necessary for me to do research on the role and involvement of the government in order to create economic balance among all sections of society.

Objective of research

In this study, we seek objectives such as examining the inability of the market economy to create equilibrium, types of government intervention to maintain economic equilibrium, effective policies to create economic purchasing power and the need for government intervention to drive aggregate demand in Afghanistan.

Research questions

Are people familiar with the market economy system?
Has the market economy failed to create economic balance in Afghanistan?
What is the extent to which the government plays an economic role in maintaining economic balance?
Which factor (monopoly, foreign works, public goods, economic instability or insufficient information) has caused the inability of the market economy in Afghanistan?

Sampling and sample size

This research is applied research in terms of purpose and survey research in terms of implementation method. The study population in this study consists of (100) commercial companies in Herat province. The sample size using Cochran's formula consists of two limited and non-invasive communities. Data collection is Hemmati Standard Questionnaire (2010)

The tools used in this research are the interview and library research questionnaires. SPSS and Excell programs were used to analyze the data.

Statistical analysis

The data of this research have been collected in two ways, each of which is described below.

A- The first category data: These are the data that the researcher himself accesses during the research through the available tools.

To achieve the objectives of the research, the researcher should design a questionnaire that contains information about the general characteristics of the subject and ask questions that are understandable and simple for the interviewee or the person being interviewed. To complete it. B- The second category of data: are the information that the researcher obtains to complete his research through content analysis using books, journals, and scientific articles and searching on reputable scientific Internet sites.

This study also used authoritative books, scientific articles published in prestigious quarterly journals, scientific journals, instructions and guidebooks of Afghanistan's commercial law.

Literature Review

Government intervention plays a major role in the economics of countries. According to this principle, commercial law is one of the most important disciplines of private law. If the economic developments and the development of the mechanism are examined, it can be seen that due to the mentioned reasons, the social relations of people have become more numerous and as a result, in most countries of the world except England, Holland, Italy and Switzerland, civil rights form a part of private law. Other disciplines, such as commercial law, maritime law and aviation law, each operate independently and under their own rules.

Research findings

Today, policies to balance the economy, production and trade are pursued in all countries and economic systems. Even in free economic systems, governments sometimes intervene in the market and implement regulatory policies to prevent fluctuations in key variables. These policies include pricing policies. In developing countries, including Iran, these imbalances in the economy are greater, and of course, government intervention in the market to balance supply and demand and price stability is greater. Therefore, the discussion of market regulation and policies applied to balance the market and ensure the interests of consumers and, consequently, producers in these countries is of particular importance. The donor has been obtained and the answer to the questions of this research has been provided, which is as follows.

Are people familiar with the market economy system?

Out of the total respondents, 33% chose medium option, 18% chose high option, 28% chose very high option, 16% low choice and 5% very low choice.

After examining the mentioned percentages, we conclude that the respondents are very familiar with the market economy system.

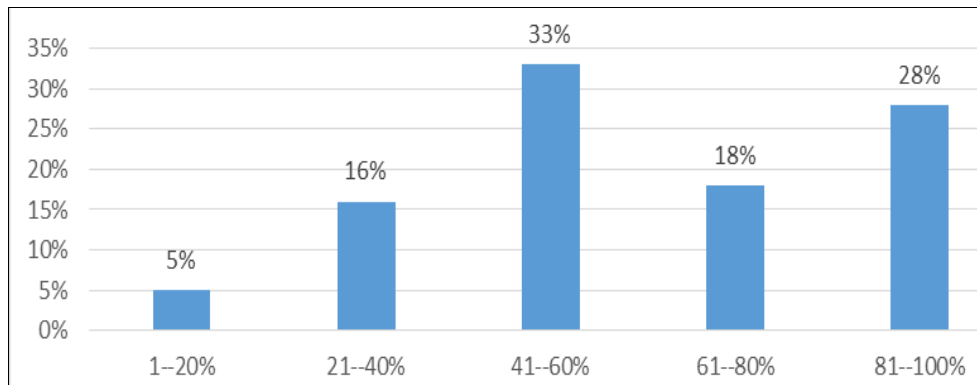


Fig 1: The extent to which people are familiar with the market economy system n=100

Has the market economy failed to create economic balance in Afghanistan?

Out of the total respondents, 37% chose medium option, 39% high choice, 11% very high choice, 10% low choice and 3% very low choice.

Since 39% have chosen the high option, we conclude that the market economy has been unable to balance the Afghan economy.

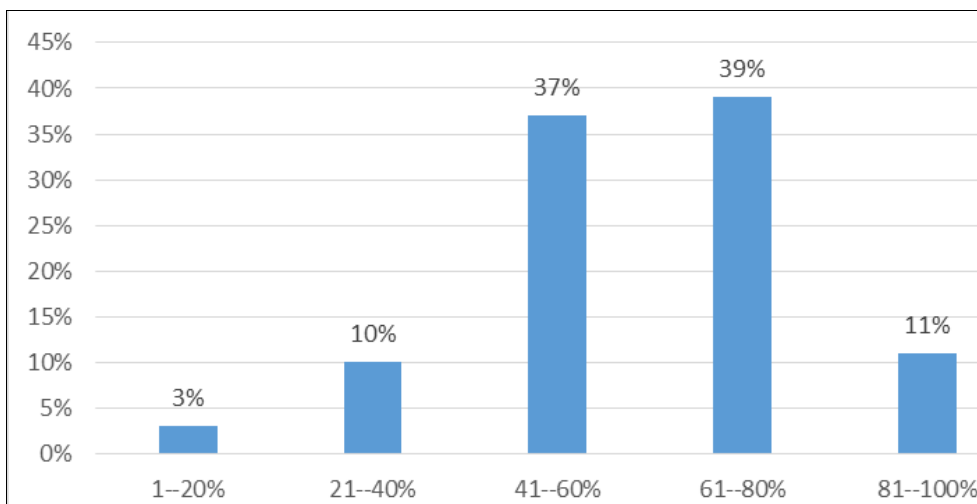


Fig 2: Has the market economy failed to create economic balance in Afghanistan? n=100

How should the government play a role in maintaining economic balance?

Of the total respondents, 23% chose the role of legislator, 44% the role of stabilization, 20% the role of allocation, 10% the role of justice and 3% the role of guidance.

After a percentage review of these responses, we conclude that the government should work on stabilization.

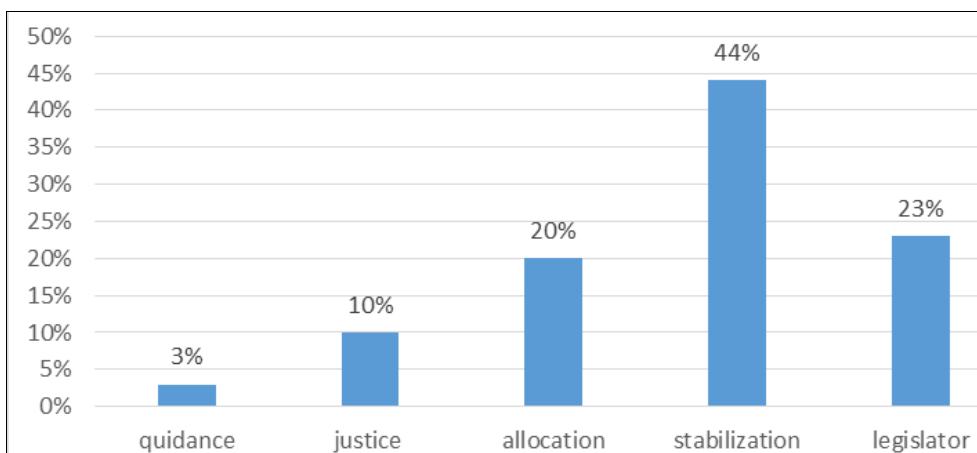


Fig 3: How should the government play a role in maintaining economic balance? n=100

Which factor (monopoly, foreign works, public goods, economic instability and insufficient information) has caused the inability of the market economy in Afghanistan?

Out of the total respondents, 35% chose the option of insufficient information, 20% chose the option of economic

instability 15% chose the option of public goods, 20% the option of foreign works and 10% the option of monopoly.

After a percentage study of these answers, we conclude that the lack of sufficient information in proportion to other factors has further weakened the market economy in Afghanistan.

Fig 4: Which factor (monopoly, foreign works, public goods, economic instability and insufficient information) has caused the inability of the market economy in Afghanistan?

Conclusion

Determining the extent of government intervention in the field of economic activities is the most important issue that economic theorists have been facing since the formation of modern economic ideas. Past experience has clearly shown the benefits and limitations of governments' performance, especially in promoting development. Governments have worked hard to make significant progress in education and health and to reduce social inequalities. Of course, some government actions have had poor results. But even where governments have done well in the past, many are concerned about the government's inability to adapt to economic globalization.

Recombination

It is suggested that the government plan and implement laws to maintain the economic balance of the market. For example, the implementation of environmental protection laws and the implementation of anti-monopoly laws.

It is suggested that the government provide a stable environment in society to maintain the economic balance of the market. For example, the government should use monetary and financial instruments to maintain stability in society.

It is suggested that the government should focus on the allocative role to maintain the economic balance of the market.

It is suggested that the government eliminate the factors that cause the weakness of the market economy, such as external effects, economic instability, and monopoly.

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