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Keeping the price level low

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THE term capital refers to a fixed factor of production, which does not change in the short run. Capitalist refers to an owner of capital. Production of goods and services will belong to the capitalist. Capitalism is an economic system where there is several exchangeable terms including capitalist mode of production, economic liberalism, free-enterprise economy, laissez-faire economy, market economy, market liberalism and self regulating market. Free market capitalism consists of a free price system where supply and demand reaches a point of equilibrium without government intervention. Productive enterprises are privately owned. The rule of the state is limited to protecting property rights.

Capitalism consists of individual, enterprise, market and government. Individuals can be both consumer, labour and investor. As a labour the individual will choose which market to work and subsequently he will also choose which job to seek. Investors will decide how much to save out of their income. His savings would be available for the investment in his business. The monetary investment in business will help grow his business. The business firm tries to decide what to produce, how much to produce and for whom to produce. The business firm will purchase land, labour, capital, technology, management and the related materials in a favourable combination to invest in their business.

Sometimes consumer demand is also formed according to the producer and their production. Supply creates its own demand. In a capitalist economy producer have the flexibility to research on the new product or to continue production of old product. For the old product they can easily assess the consumer demand. For the new product the entrepreneur does the job of marketing and advertising.

In a capitalist economy the entrepreneurs try to maximise their profit or minimise the cost of production. Profit is equal to revenue minus cost of production (TP = R-C). The motive of the entrepreneur is to make profit. Self-interested entrepreneurs face the liberal market policy with minimum intervention in their effort of making profit. However, the companies manufacture those goods and services for which market demand is available. If market price is higher than the cost of production the firm can make profit. If the market price is, somehow lower than the cost of production, entrepreneurs have to incurr loss. Profit and loss are the reflection of the system of capitalism. They cannot blame anybody. Therefore, the entrepreneurs try to produce goods and services very efficiently under capitalism. They try to cut the variable cost such as labour and materials to the extent it is possible for them to do so. Simultaneously they try to sell their product at a relatively high price. If a country under capitalism is growing it will be determined by the production of goods and services and their amount and the available market prices. Under capitalism workers qualification and skills matter a lot in fixing their wage rate. Everybody doesn't get the same wage. The firms would like to pay higher wage to the smart worker. Wage is also determined by equating supply and demand for labour under capitalism. If supply is higher than the demand for labour, people will tend to be employed in the labour market at lower wage. If supply of labour is less than demand for it, the market wage will tend to go up. Trade union of the labour exists under capitalist system. Negotiation between trade union, government, and the company tries to influence the market wage for the labour. Precisely, trade union bargains for their wage and congenial atmosphere and working condition in the work place.

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An economy grows if its goods and services are increasingly produced. For any kind of production the private entrepreneurs have to decide when and how much to invest in infrastructure, land, labour, capital, technology etc. As far as labour wage is concerned, demand and supply of labour market, scarcity of labour and labour skill will matter substantially. Competition arises when more than one producer or supplier try to sell the same or similar product to the same buyer. In other words, if more than one buyer try to buy the same product from the same producer, buyer will face the market competition. In case of imperfect competition, say a single seller of a product can raise its price to the sky, or a single buyer can decrease prices of some goods and services down to the bottom. That's why large number of buyers and sellers are recommended in a capitalist economic system for the quality goods at relatively low price.

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