INVESTIGATION OF ADVANTAGES AND DISADVANTAGES OF MARKET ECONOMY

Pроведено аналіз поняття ринкової економіки. Розглянуто позитивні та негативні сторони ринкової економіки, а також правильність трактування даного терміну згідно сучасних тенденцій. Зроблено висновок про те, як правильно, на погляд авторів, потрібно трактувати саме поняття «ринкова економіка». Також проаналізовано зміни стану економіки країн, які перейшли до ринкової економіки, а також правильність трактування даного терміну згідно сучасних тенденцій.

Key words: market economy, advantages, disadvantages, comparison.
The formation of a market economy is characterized by complex and contradictory relationships, the management of which requires the continuous improvement of methods of economic analysis and the development of new methods for processing and systematizing analytical information in accordance with international and national standards.

One of the most problematic places in the study is the correct interpretation of the concept of a market economy, taking into account its disadvantages: society stratification, rising unemployment, deterioration of public goods.

3. The aim and objectives of research

The aim of research is analysis of the market economy and countries that have switched to a market economy in the current economic situation.

To achieve this aim, the following tasks are defined:
1. To conduct a market economy analysis.
2. To carry out the analysis of the economy of Estonia, Latvia, Lithuania.
3. To give recommendations on the transition to a market economy, based on positive and negative signs of it and the experience of Estonia, Latvia and Lithuania.

4. Research of existing solutions of the problem

With the purpose of effective formation of a market economy, an analysis of the literature has been carried out, with the help of which the state of the market economy research has been clarified and confirms the need for its further development. Study of the impact on countries, switched to a market economy, are also carried out.

In the world, seven countries with the largest GDP in the group of developed countries with market economies – Germany, Italy, Canada, United Kingdom United Kingdom, USA, France, Japan [1]. That is why it is necessary to take an example from these countries for the development of the country’s economy.

Many scientists are engaged in the study of the market economy. In [2] the author considers the emergence and development of a market economy. The author of [3] examines the main disadvantages of the market economy. The fight against hunger and poverty through a social market economy is analyzed in [4]. The successful implementation of the socialist market economy is considered in [5]. The author of [6] considers the paradoxical nature of a market economy. Research [7] is devoted to the Roman market economy. The author [8] analyzes the market economy with mass production. In [9, 10], the authors investigate the market economy of the EU. The author [11] investigates some kinetic models of a market economy. In work [12] the market economy in conditions of fast globalization and increase of productivity is investigated. The scientific publications of these scientists define the concept of a market economy, its signs and principles of functioning. However, despite the emergence of many studies, a number of aspects of this important problem remain insufficiently studied.

5. Methods of research

To solve the problems, the following methods are used: analysis and synthesis, logical generalization, analogies, comparative comparisons, monographic and graphoanalytical methods.

6. Research results

The market economy was born and for a long historical period it functioned as a self-regulating system. However, the possibilities of a market mechanism for self-regulation are not unlimited. It is not able to guarantee the solution of all socio-economic problems of modern society. The market mechanism allows people to satisfy only those needs that are expressed through demand. But there are other needs that can’t be measured in money and turned into demand.

Sometimes the market complains a certain place (market, fair), where the trade is carried out. However, the term «market» means «the sphere of exchange of goods for money and money for goods, the interaction of producers and consumers on a regional, national or global scale» [13].

In a market economy, the question is what, how and for whom to produce is decided by the manufacturer, which focuses on the co-dependence of supply and demand in this market. The main feature of the market is that it is based on spontaneous coordination or spontaneous order. Therefore, this economic system is characterized by rapid self-regulating development.

In determining the market economy, some authors emphasize the basis on which this economic system is based, others believe that the main thing is interaction and coordination in free markets. Their opinions agree in one thing – that the market economy characterizes most of the economies of countries around the world. Interpretations and clarifying definitions of the concept of a market economy are given in Table 1.

<table>
<thead>
<tr>
<th>Source</th>
<th>Interpretation</th>
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<tbody>
<tr>
<td>[14]</td>
<td>Market economy is a form of economic organization in which coordination of actions is carried out on the basis of interaction in the markets of free private producers and free individual consumers</td>
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<td>[15]</td>
<td>Market economy is an economic system based on private ownership of production conditions, the functioning and development of which is regulated by the competition of economic entities and other market laws. It is based on the principles of free enterprise, various types and forms of ownership of economic entities, the market mechanism of pricing, limited government intervention and contractual relations of market entities</td>
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<tr>
<td>[16]</td>
<td>Market economy is an economic system based on the principles of free enterprise, the diversity of forms of ownership of the means of production, market pricing, contractual relations between economic entities, and limited state intervention in economic activities. It is inherent in socio-economic systems, where there is commodity-money relations</td>
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<tr>
<td>[17]</td>
<td>Market economy is a system based on private property, in which a free play of market forces is carried out</td>
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<tr>
<td>[18]</td>
<td>Market economy is a system of rights and responsibilities. Without effective mechanisms, economic responsibility for the decisions and commitments made, it will not be able to function</td>
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Summarizing the foregoing, it is concluded that the market economy is a type of economic system where the supply and demand regulate the economy, rather than state
intervention. A real free market economy is an economy in which all resources are owned by individuals. The decision to allocate these resources is carried out by individuals without government intervention. There is no completely «free enterprise» or «market economy». In a market economy, the producer gets a decision about what to produce, how much to produce, at the price to point out to consumers for these goods, and what to pay employees. These decisions in a free market economy affect the pressure of competition, supply and demand.

Market economy is the most well-known topic for disputes among prominent economists of our time. Their thoughts are often completely opposite. It is generally accepted that the concept of a market economy in its pure form does not exist at all. In practice, this issue implies a mixed type of economy, which provides for a minimum level of government presence, as well as maximum market influence. If we talk about a market economy in this sense, its advantages and disadvantages can be seen clearly.

The market system contains a number of fundamental characteristics, without which it can't exist. Let’s consider the main features that characterize the market economy, which are depicted in Fig. 1.

![Fig. 1. Signs of a market economy](image)

Let’s consider the advantages (Fig. 2) and the disadvantages (Fig. 3) of the market economy.

![Fig. 2. Advantages of a market economy](image)

The market economy is considered one of the main engines of technological progress, since a high level of competition, which guarantees the high quality of the produced product, will not allow low-quality goods to enter the market (they simply will not withstand competition).

Since the supply is determined by the demand for the goods, therefore all the products produced are in demand, which in turn does not allow the existence of such notion as a deficit, queues and commodity shortage.

The commodity producer must take care of the process of minimizing money deposits, therefore, he needs resources, he directs to those zones where they will give the highest return. This leads to the efficient and appropriate use of production resources.

If an entrepreneur makes a real contribution to his production, and cares about creating a product demanded by consumers, then he will receive the maximum level of profit. For those who competently organize work and own valuable resources, the market economy guarantees a high profit. Therefore, the profit in this case will directly depend on the contribution and the level of work.

Also one of the advantages of a market economy is full economic freedom, which is expressed in entrepreneurial freedom, freedom of choice of a category of buyers and sellers, freedom of transportation of a resource, setting price policy, and the like.

In accordance with Fig. 3 it is reasonable to say that the market economy is a system of a cyclical nature with a constant dynamics, as well as the level of inflation and part-time employment, it can undermine the entire debugged system and therefore there is a small stability of the economic system.

The very market economy, in fact, can reduce competing forces. This pattern leads to monopolization and the possibility of collusion among firms.

The conditions of a market economy do not provide for the production of public goods, so it becomes impossible to produce protection of the general order, national defense, fire safety and the like. Also, this mechanism does not help to preserve the country’s natural resources, and can’t regulate their use (it is a question of gas, oil, coal and other natural values).

Thanks to the market economy, there is a stratification of society, because differentiation of income contributes to social stratification.

In a market economy, information is poor, as the relevance of information decreases day by day and not always the information can be accessible to an ordinary citizen. Since the market mechanism can’t protect market participants from abuse, aggressive advertising campaign and the imposition of unnecessary or harmful goods. And this means that it is necessary to combine market economy and state control.
Increasing unemployment and emergence of a number of social problems arise as a result of fierce competition. They may well undermine stability in the country, cause significant social fluctuations and even undermine confidence in state power in the country.

Having considered the theory of market economy, let’s also consider its practical application in developing countries. In particular, let’s cite below studies when countries joined the EU and embarked on a path to a market economy. Let’s consider the influence that this transition made.

In 1991, Lithuania, Estonia and Latvia were the first to leave the USSR. Further, these rather different states, often summarized as «the Baltic States», with varying success, but with similar zeal went on the path of targeted integration into the Western and European community. This path passed through very painful market and structural reforms and ended with the entry of these countries into the European Union in 2004. Accession to the European Union in 2004 was considered by residents of the Baltic States (Lithuania, Estonia and Latvia) a significant leap in the development of the economies of countries. It seemed that Latvia, Lithuania and Estonia would again receive a strong economic sponsor, as disinterested as the USSR was, only without communism. And the Baltic will heal not worse than Holland or Belgium.

Let’s analyze what did happen to the economy of the Baltic countries after accession to the EU. The main indicator of the state of the economy is considered to be the gross domestic product (GDP) per capita. It was decided to compare this indicator in Lithuania, Latvia and Estonia in 1996, when «shock therapy» was actively active, in 2004, when they were taken to the EU, with the indicator of 2016. Let’s consider the gross domestic product per capita, based on official exchange rates, rather than the purchasing power parity method. Value is given in US dollars and is not adjusted with inflation. These figures are taken from the database of the International Monetary Fund «World Economic Outlooks» (WEO), the October edition of 2017, the World Bank or various sources.

In accordance with Fig. 4 it is reasonable to say that in recent years, economic growth since joining the EU has not slowed down. On the contrary, let’s observe growth several times, namely in Latvia 5.82 times, in Lithuania 6.4 and Estonia 5.3.

It is considered how GDP per capita has changed, so it will be advisable to consider the number of people in the dynamics from 1990 to 2016 (Fig. 5).

Analyzing the data in Fig. 5, the population of these three countries in the period from 2004 to 2016 decreased by hundreds of thousands, namely, in Lithuania by 22.32 %, in Latvia – 26.39 %, in Estonia – 16.10 %. The Baltic countries were given free entry to the rich countries of the world, where the average wage is several times higher than the local one. In such situation, mass labor migration looks quite natural. It’s not clear that this is bad for the economy, because it is necessary to consider who leaves the country. When high-quality specialists and managers emigrate, this is certainly a loss for the economy. But if emigrated by low-skilled workers who have lost their jobs after the collapse of Soviet industries, swept the streets of Riga since then, and agreed to sweep the streets of London for a decent wage, then the economy will win on the contrary. Because unemployment and social expenses of the state are reduced, and wage inflation begins in the labor market.

Let’s investigate that these countries did not become a market, instead of producing their own. To do this, let’s consider exports at current prices after the accession of the Baltic countries to the EU (Fig. 6). Analyzing the data in Fig. 6, after accession to the EU, exports in countries did not decrease, but on the contrary grew, and increased by several times, if compare 2015 and 1996. Therefore, it can’t assert that these countries have become a market for sale.

Let’s consider how exports in these countries have changed per capita in current prices (Fig. 7).

The analysis of export dynamics shows that exports per capita also increased, which positively affects the country’s economy.
Thus, it is clear what happened to the economies of the countries after they joined the EU.

Now let’s analyze how this affected the population of the countries, that is, people got it. Let’s analyze the average annual wage in current prices in US dollars (Fig. 8).

Analyzing Fig. 8, let’s conclude that the average annual wage has grown in Latvia from the level of 8920 in 1996 to 22389 in 2016, in Lithuania from 8794 to 22949, in Estonia from 9394 to 23621 respectively. Therefore, based on these data, it can be argued that the dynamics of wages are improving.

According to the laws of the economy, the rapid growth of incomes leads to a general increase in inflation. However, as can be seen from the following graph (Fig. 9), after entering the European Union, inflation in the Baltic countries has fallen dramatically.

According to the analysis of Fig. 9 it is reasonable to conclude that the level of inflation, measured by the consumer price index, reflects changes in the average consumer’s spending on the purchase of a basket of goods and services. These changes can remain at a constant level or change at specified intervals, for example, annually.

Unemployment is another indicator of the impact on people (Fig. 10). According to the definition of the International Labor Organization, economically active people who are unemployed at the moment are unemployed, but are looking for it. During the calculation of the indicator, those who lost their jobs or voluntarily left it are considered.

Unemployment in the Baltic countries after accession to the EU also decreased (only in Lithuania a little increased compared to 2016 to 2004).

Having considered how the accession to the EU affected the Baltic countries, let’s analyze what changes have taken place in the private sector. Let’s consider the indicator of domestic loans that were provided to the private sector as a percentage of GDP. Domestic loans that are provided to the private sector include financial resources in the form of loans, securities, trade credits and other banking products with established debt repayment conditions (Fig. 11).
Fig. 11 shows that domestic loans to the private sector in relation to GDP grew after the crisis, and then declined when the country’s economy stabilized. As a result of the rapid growth in loans, in the so-called crisis and post-crisis years, private sector debt securities increased significantly: at the end of 2008, loans to the local private sector accounted for 84 % of GDP in Latvia, 96 % for Estonia and 59 % for Lithuania. In the case of Estonia and Latvia, this indicator was one of the highest among the countries of the new Europe and comparable to the situation in some European countries. The high debt burden in the private sector in the Baltic countries indicated that further growth in lending is associated with an increased risk and could lead to a more significant deterioration in the quality of the commercial banks’ loan portfolio.

Despite the increase in lending volumes, banks will maintain a balanced funding structure, relying on the deposits of the population and enterprises. 2016 was not an exception. The number of customers of banks as of January 1, 2017 amounted to 18.8 billion euros, which is 10.0 % higher than a year ago. Most of this amount – almost 11.2 billion – was made by individuals. At the end of 2016, it is possible to see that loans have declined in Lithuania and Estonia, while in Latvia they have grown on the contrary.

7. SWOT analysis of research results

**Strengths.** The strength of research is the analysis of the market economy as a whole, the changes in the economies of countries that have switched to a market economy and the identification of the advantages and disadvantages of a market economy that can be used to make decisions on the choice of the direction of the economy.

**Weaknesses.** The weak side is that the data is not collected objectively, because the authorities of the countries usually want to show more positive results of the state.

**Opportunities.** Opportunities for further research is borrowing the experience of foreign countries recently embarked on the path of a market economy, as well as those countries that have long been on this path to improve decision making in a free market. And also experience with the use of innovative methods for analyzing the situation in general across the country and separately at the enterprise.

**Threats.** Threats to the research results are that:
- the market economy is constantly changing, there are new positive and negative consequences that need to be taken into account and change the methods of analysis and decision making;
- external factors influence the market economy (review of budgets by enterprises for the reliability of information, socio-economic instability in the country and deepening of the global financial crisis), on which the reduction or increase in the performance of the economy of the country depends.

8. Conclusions

1. The study of the interpretation of the market economy is conducted, which shows that the market economy is a self-sufficient mechanism, the sources of which go back to antiquity. It was popular many centuries ago and to date is quite effective. There is also a market economy and disadvantages, among which is the differentiation of income, the inability to compensate for external costs, and the like. Market economy is theoretically characterized by equality of rights to natural resources, as well as to sales markets. The pros and cons of the market economy have been compared and it can be noted that the market economy is not perfect, but despite this, it guarantees a high level of product quality, a supply-demand ratio, and also regulates the number of unscrupulous producers on the market. The most advanced developed countries of the world have long appreciated the advantages and disadvantages of a market economy and chose the most appropriate system for themselves, where state intervention, traditions, pluses and minuses of a market economy are harmoniously combined.

2. The analysis of the Baltic countries is carried out, which shows that the transition in these countries increased GDP per capita in Latvia by 5.82 times, in Lithuania at 6.40 and Estonia by 5.30. When examining exports, it is found that, after accession to the EU, exports in countries did not decrease, but on the contrary grew, and increased at times, if we compare 2015 and 1996. Therefore, it isn’t possible to assert that these countries have become a market for sale. However, the population of these three countries in the period from 2004 to 2016 decreased by hundreds of thousands, namely: in Lithuania by 22.32 %, in Latvia – 26.39 %, in Estonia – 16.10 %.

3. Recommendations are proposed on the expediency of the transition to a market economy, namely: first it is necessary to analyze the state of the country and the possibilities for its change. After all, changes are quickly introduced and give a positive result when the system is prepared and also when people want to go to change and, most importantly, are ready for change, and do not try to damage the way to change. Based on the economies of the countries of Estonia, Latvia and Lithuania, it can be argued that after a long thorny path, their economy began a rapid development and improvement of indicators.

**References**

ANALYSIS OF THE DE-DOLLARIZATION PROBLEM IN DEVELOPING COUNTRIES ON THE EXAMPLE OF AZERBAIJAN IN THE CONDITIONS OF GEOPOLITICAL ASYMMETRY

1. Introduction

The concept of asymmetry, i.e., disproportion, discrepancy was included into an arsenal of mathematics and physics long ago. Asymmetry belongs to usual, widespread natural phenomena (geological, biological and other). [1] reveals in detail how asymmetry turned out to be an important aspect in most, even in each known geopolitical relations. By [2] the asymmetric strategy always presents in relationships. [3] suggests that all modern asymmetric conflicts can be understood when they are considered through the prism of the strategy and concludes that asymmetry is a strategy and strategy is an asymmetry.

At the beginning of the XXI century significant changes were observed in all characteristics due to radical shifts in the global economy. Today the USA as the largest importer of oil and the only superstate monopolized the right to convert geopolitics of spaces into geopolitics of streams, geostrategy in geoeconomy and vice versa. Both sellers and buyers prefer to conduct calculations in dollars in order to avoid unnecessary transaction costs. From this perspective, the greatest danger is political: any trade in the national currency is a blow to the dollar, and the US perspective, the greatest danger is political: any trade in the national currency is a blow to the dollar, and the US

Pроверен анализ понятия рыночной экономики. Рассмотрены положительные и отрицательные стороны рыночной экономики, а также правильность трактовки данного термина согласно современным тенденциям. Сделан вывод о том, как правильно, по мнению авторов, нужно трактовать само понятие "рыночная экономика". Также проанализированы изменения состояния экономики стран, перешедших на рыночную экономику, а именно: Эстония, Латвия, Литва.

Ключевые слова: рыночная экономика, преимущества и недостатки рыночной экономики, валовой внутренний продукт (ВВП), экспорт стран Прибалтики.


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Выведена геополитична асиметрія інтересів між розвиненими та країнами, що розвиваються. В умовах глобальної кризи питання дедолларизації стає актуальним і з політичної, і з економічної точки зору. Розглянуто проблему невеликої держави, що виникла на тлі нафтової пастки.

Ключевые слова: рыночная экономика, преимущества и недостатки рыночной экономики, валовой внутренний продукт (ВВП), экспорт стран Прибалтики.


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