

# Centrally Planned Economies

## Chapter 2.3

# Centrally Planned Economies

In a centrally planned economy (communism) the government...

1. owns all the resources.

2. answers the three economic questions

**Examples:**

**Cuba, North Korea, former Soviet Union, and China?**

**Why do centrally planned economies face problems of poor-quality goods, shortages, and unhappy citizens?**

**NO PROFIT MEANS NO INCENTIVE TO WORK HARDER!!**

# Irrational Soviet Production

**Soviet companies were not guided by prices or profit. Gov't officials determined output quotas based on quantitative measurements. Businesses were paid based on meeting these quotas.**

**1. Why did a business make desk lamps that were filled with lead that were almost too heavy to carry?**

**Production quota based on weight**

**2. Why did light bulb producers only make tiny night light size bulbs?**

**Production quota based number of bulbs produced**

**3. Why did a construction superintendent order his workers to remove bathtubs from the first floor and install them in the third floor while he slowly lead inspectors through apartment building.**

**Quota on # of apartments complete at inspection**

# Advantages and Disadvantages

## What is GOOD about Communism?

1. Low unemployment-everyone has a job
2. Great Job Security-the government doesn't go out of business
3. Equal incomes means no extremely poor people
4. Free Health Care

## What is BAD about Communism?

1. No incentive to work harder
2. No incentive to innovate or come up with good ideas
3. No Competition keeps quality of goods poor.
4. Corrupt leaders
5. Few individual freedoms



# REVOLUTIONARIES

Even if you spend your whole life combatting the forces of capitalism, you still might wind up on a t-shirt sold in a store owned by the Gap.

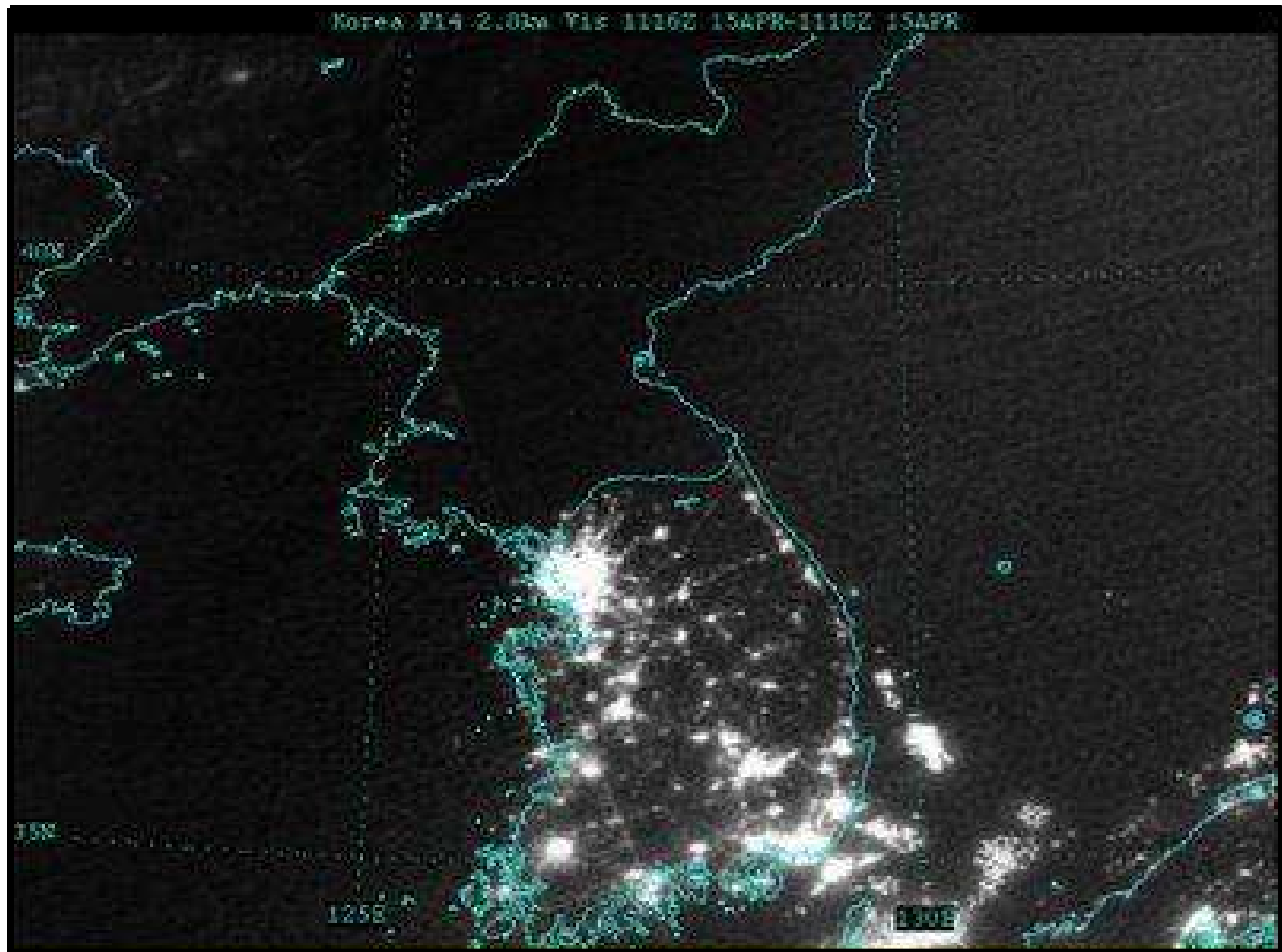
# Example of Communism

Example of why communism failed:

If consumers want computers and only one company is making them...

- Other businesses **CANNOT** start making computers.
- There is **NO COMPETITION....**
- Which means higher prices, lower quality, and less product variety.
- More computers will not be made until the government decides to create a new factory.

**The End Result: There is a shortage of goods that consumers want, produced at the highest prices and the lowest quality.**



**The difference between North and South Korea at night.**

**North Korea's GDP is \$40 Billion**

**South Korea's GDP is \$1.3 Trillion (32 times greater).**