

ECON: Chapter 2.1

Answering the Three Economic Questions

Economic System = the methods used by a society to produce and distribute goods and services

I. Three Key Economic Questions

1. **What** goods and services should be produced?
 2. **How** should these goods and services be produced?
 3. **Who** consumes these goods and services?
- A. Q. What goals and services should be produced?
1. Every society must decide what to produce in order to satisfy its needs and wants. (remember, guns and butter)
 - a. How much of our resources should we devote to defense, education, public health, welfare, and consumer goods?
- B. Q. How should goods and services be produced? Ex. Q. Should we produce electricity with oil, solar power, or nuclear power? Q. Should we produce food on large farms or small family farms?
- C. Q. Who consumes these goods and services?
1. Distribution
 - a. Factor payments (DEF = the income people receive for supplying factors of production-land, labor, capital.
 - b. Who gets what lies at the very core of the differences between economic systems.
 - i. Answer changes from society to society.

II. Economic Goals and Societal Values

- A. Economic Efficiency
1. Societies try to maximize what they can get for the resources they have to work with.
 2. *If society can accurately assess what to produce, it increases its economic efficiency.
- B. Economic Freedom
1. The economic system of different nations allow different degrees of economic freedom.
 - a. In the US, patriotism (DEF = the love of one's country) is directly related to our economic freedom.
 - b. "The American Dream"- the freedoms that allow any American who chooses to become an entrepreneur is a source of pride and patriotism
- C. Economic Security and Predictability
1. People want predictability
 - a. Ex. Stores have bread and eggs when you go shopping. Gas is always available at the gas station.

III. Economies and Values

- A. 4 different economic systems have been developed to address the 3 economic questions.
1. Traditional Economies- relies on habit, custom, or ritual to answer 3 questions.
 - a. Little room for innovation or change
 - b. Lack modern conveniences
 2. Market Economies- economic decisions are made by individual and based on exchange or trade.
 - a. Also called "free market" or "capitalism"
 3. Command Economies- a "centrally planned economy" where decisions are made by the central government.
 4. Mixed Economies- market based economic systems in which government plays a limited role.
 - a. Most modern economies