

# **Three Key Economic questions and Three types of Economies chapter 2.1**

If your cow isn't giving any milk maybe it's time to sell him.

# Key Economic Question #1

## 1. What goods and services should be produced?

- How much of our resources should we devote to national defense, education, public health and welfare, or consumer goods --- the guns versus butter debate.

## Key Economic Question #2

### 2. How should these goods and services be produced?

- What combination of factor resources – land, labor, and capital – should be used. i.e. manual labor versus mechanical labor.

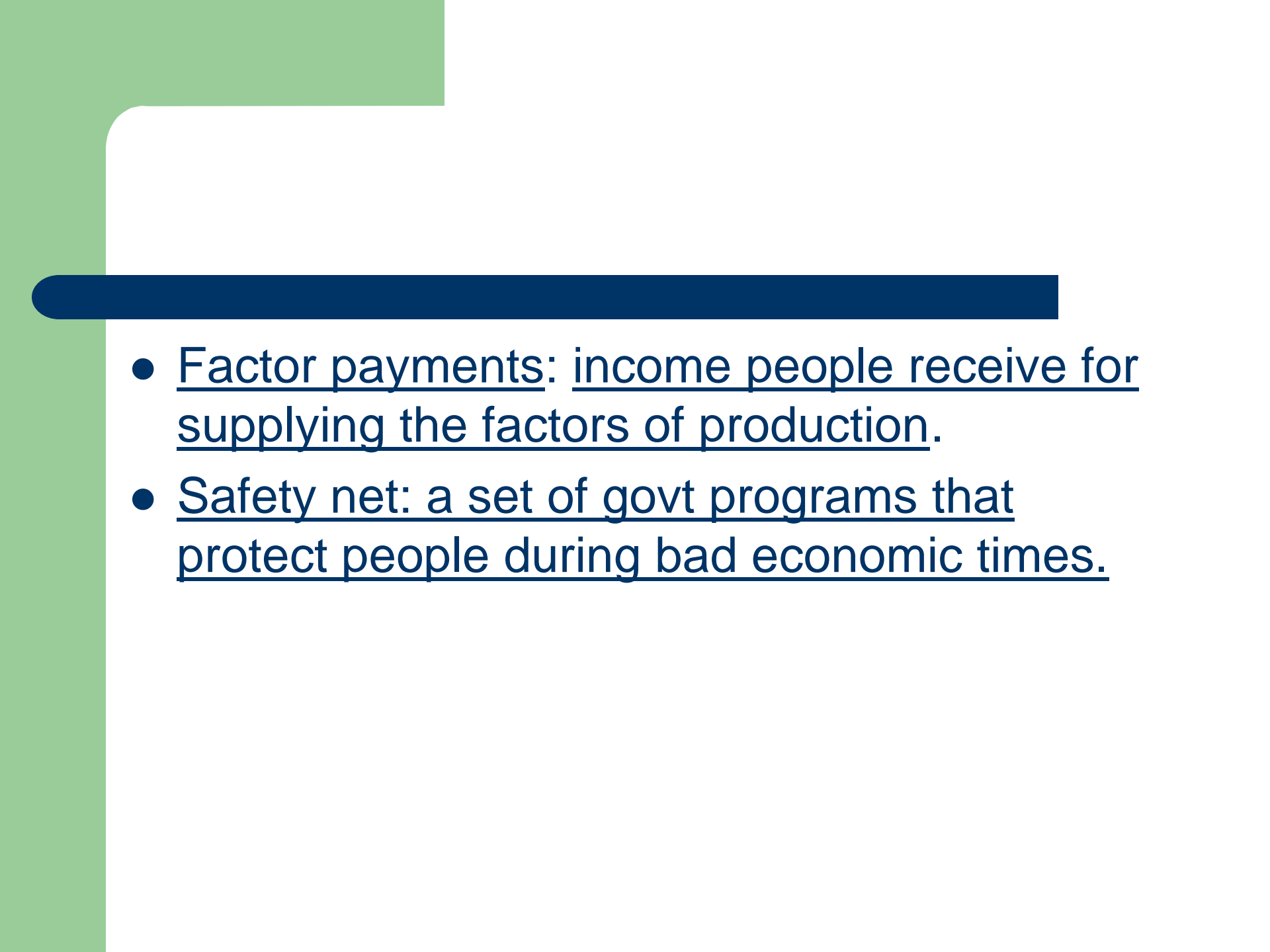
## Key Economic Question #3

### 3. Who consumes these goods and services?

- How will the income be distributed? How will factor payments be determined?

# Economic Goals

<b>Economic efficiency</b>	Making the most of resources
<b>Economic freedom</b>	Freedom from government intervention in the production and distribution of goods and services
<b>Economic predictability</b>	Assurance that goods and services will be available and payments will be made on time.
<b>Economic equity</b>	Fair distribution of wealth
<b>Economic growth and innovation</b>	Innovation leads to economic growth, and economic growth leads to a higher standard of living.
<b>Economic Security</b>	A safety net is provided for individuals --like welfare.
Other Goals	Societies pursue additional goals, such as environmental protection.

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- A decorative graphic on the left side of the slide, consisting of a light green vertical bar and a dark blue horizontal bar with rounded ends.
- Factor payments: income people receive for supplying the factors of production.
  - Safety net: a set of govt programs that protect people during bad economic times.

# Types of Economic Systems

1. Traditional Economy
2. Command or Centrally Planned Economy
3. Market Economy

# Traditional Economies

- **Traditional economies** rely on habit, custom, or ritual to decide what to produce, how to produce it, and to whom to distribute it. Examples: Eskimos, tribal communities



# Centrally Planned Economy

- In a **Command or Centrally planned economy** the central government makes all decisions about the production and consumption of goods and services.  
Examples: Cuba, China, other communist countries, kingdoms and dictatorships.

# Market Economy

- In a **Market economy** economic decisions are made by individuals and are based on exchange or trade. Examples: United States, Canada, and Australia

# Types of Economic Systems

Economic System	What to produce	How to produce	For Whom to produce
Traditional	Determined by tradition Economic roles passed from generation to generation	Determined by custom	Usually centered around traditional family and social units such as a tribe
Centrally Planned (Command)	Determined by government officials	Determined by government officials	Determined by government officials
Market	Determined by individuals	Determined by individuals	Determined by individuals

# Mixed Economy

- **Mixed economies** are systems that combine tradition and the free market with limited government intervention.
- Most economies today are mixed economies.

# Types of Mixed Economies

- Socialism – every one should be treated equally economically
- Communism – the government owns or controls most of all the goods and services -- closest to Command Economy
- Major difference between socialism and communism is that socialists can have a democracy while a communist believes there needs to be a violent revolution and needs a strong centrally planned, authoritarian government.

# More types of Mixed Economies

- Capitalism- a market economy where the government has a limited control of certain markets. Taxation and spending allow the government to provide a variety of services such as education, welfare and national defense.
- Democratic Socialism – Government owns and runs key industries such as electrical utilities, telephone networks, and health care.