

Economic Systems



Economic Systems

- An economic system describes how a country's economy is organized.
 - because of the problem of scarcity, every country needs a system to determine how to use its productive resources
- An economic system must answer three (3) basic questions...

Economic Systems

- **WHAT TO PRODUCE?**
 - What kinds of goods and services should be produced?
- **HOW TO PRODUCE?**
 - What productive resources are used to produce goods and services?
- **FOR WHOM TO PRODUCE?**
 - Who gets to have the goods and services?
- The way a society answers these questions determines its economic system.

Four Types of Economic Systems:

- 1. Traditional Economy
- 2. Command Economy
- 3. Market Economy
- 4. Mixed Economy (Market + Command)



Traditional Economy

- an economic system in which economic decisions are based on customs and beliefs
- People will make what they always have made and will do the same work their parents did.
- exchange of goods is done through bartering (trading without using money)



Traditional Economy

- **Who decides what to produce?**
 - people follow their customs and make what their ancestors made
- **Who decides how to produce goods & services?**
 - people grow & make things the same way that their ancestors did
- **For whom are the goods and services produced?**
 - people in the village who need them



Traditional Economy

- Examples:
 - villages in Africa and South America
 - Inuit tribes in Canada



Command System

- government makes all economic decisions & owns most of the property
- governmental planning groups determine such things as the prices of goods/services & the wages of workers
- This system has not been very successful & more and more countries are abandoning it.

Command Economy

- **Who decides what to produce?**
 - government makes all economic decisions
- **Who decides how to produce goods and services?**
 - government decides how to make goods/services
- **For whom are the goods and services produced?**
 - whomever the government decides to give them to



Command System



- countries with communist governments have command economies

- Examples:

- Cuba
- former Soviet Union
- North Korea

*Germany and Russia have moved away from having a command economy since 1991. Now they have a mixed economy.

Market Economy

- an economic system in which economic decisions are guided by the changes in prices that occur as individual buyers and sellers interact in the market place
- most of the resources are owned by private citizens
- economic decisions are based on free enterprise (competition between companies)
 - important economic questions are not answered by government but by individuals
 - government does not tell a business what goods to produce or what price to charge

Market Economy

- **Who decides what to produce?**
 - businesses base decisions on supply and demand and free enterprise (PRICE)
- **Who decides how to produce goods and services?**
 - businesses decide how to produce goods
- **For whom are the goods and services produced?**
 - consumers



Market Economy

- There are no truly pure market economies, but the United States is close.



Mixed Economy



- Market + Command = Mixed
- There are no pure command or market economies. To some degree, all modern economies exhibit characteristics of both systems and are often referred to as **mixed** economies.
 - Most economies are closer to one type of economic system than another.
- Businesses own most resources and determine what and how to produce, but the government regulates certain industries.

Mixed Economy

- Who decides what to produce?
 - businesses
- Who decides how to produce goods and services?
 - businesses, but the government regulates certain industries
- For whom are the goods and services produced?
 - consumers



Mixed Economy

- Most democratic countries fall in this category (there are no truly pure market or command economies).
- Examples:
 - Brazil
 - Mexico
 - Canada
 - United Kingdom



Which economic system is best?

- The market system has proven to be best because it promotes the goals of growth, freedom, & efficiency.
 - Citizens are free to own their own property and use it in the most efficient and profitable way.
- Command and traditional systems sometimes offer more security but are not nearly as strong in efficiency, growth, freedom, and environmental quality.