

# What are the different kinds of economic systems??

**OBJECTIVE:** Today we are going to learn about the four different economic systems. By the end of the day we will be able to identify their traits, and will be able to classify a country by economy.

## **AGENDA:**

- Economic systems lecture
- Descriptions worksheet

What is the relationship?

▶ **COMMAN**

**D**  
*TRADITIONAL*

**MARKET**

**MIXED**

# Economic systems

- The way a society organizes to **produce**, **distribute**, and **consume** goods.
- Economic systems try to prevent **surpluses** (having too much of a good or service)
- Economic systems try to avoid **shortages** (having too little of a good or a service)
- The four types of economic systems are: *traditional, market, command, and mixed.*

# Traditional economy



- An economic system where tradition and custom govern economic decisions
- Economic activities are usually centered toward the family, tribe, or ethnic group
- Resources are allocated based on inheritance
- Farming, hunting, and gathering are done largely in the same fashion as the generation before
- Choices are determined by environment
- Little or no use of technology

# Pros & Cons of traditional economy

- + Little friction among members because there is little competition
- + Individual roles are clearly defined
- + System is generally well understood by participants
  
- Does not allow for growth and development
- Changes are slow
- There is little social mobility (your role is determined by birth)
- Does not take advantage of technology

# Examples of traditional economies



The Batwa of the Bwindi Impenetrable Forest, Uganda



The Inuit of Nunavut, Canada



The Kayapo of the Amazon in

# Command economy



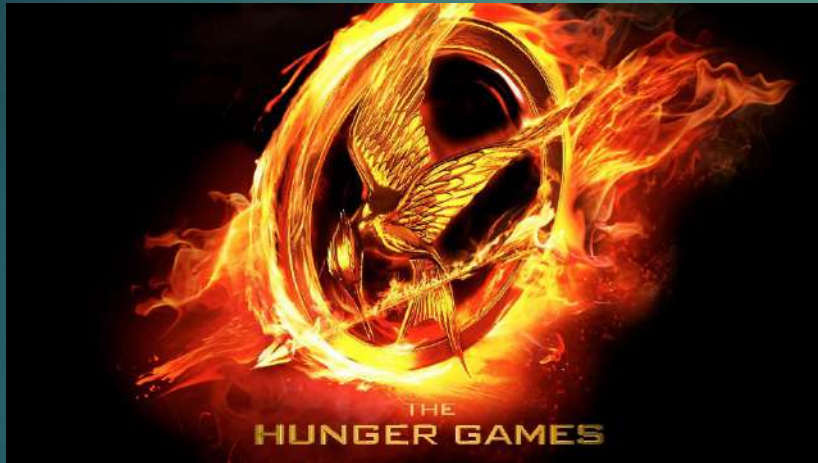
- The government or other central authority makes all economic decisions, including the price of goods and services
- Resources are owned by the government
- There is no competition; the purpose of business is to provide goods and services, not to make a profit
- Factories are concerned with quotas
- Consumers have few, if any, choices in the market place

# Pros & cons of a command economy

- ▶ + Can ensure stability because it does not coincide with business cycles
  - + Serves people collectively instead of individuals; focus on equality
  - + Distributes wealth among all of society
  - + Products produced fulfill needs
- ▶ -Often there is insufficient resource distribution (shortage/surplus)
  - Lack of incentives for innovation
  - Infringes on personal freedoms
  - Can often lead to corruption among state planners



# Examples of command economies



# Market economy



- Economic decisions are made by individuals competing to earn profits
- Based on supply and demand
- Resources are owned by individuals
- Profit, not quota, is the motive for increasing work
- Competition determines price and increases the quality of products
- Individuals have freedom to make economic decisions

# Pros & cons of a market economy

- ▶ + Prices determined by supply and demand - competition brings down prices
- + Consumers can buy whatever they like in whatever amounts they want
- + No government intervention
- + Great variety of goods and services
  
- ▶ -Does not provide basic needs of everyone in society, which can lead people to slip into poverty
- Makes it difficult for government to provide adequate social services
- There are occasionally market failures

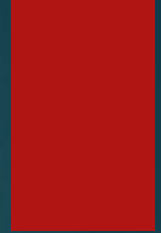
# Examples of market economies



# Mixed economies

- Combines elements of pure market and command economies; government and individuals share the economic decision making process
- Government guides and regulates production of goods and services
- Resources are owned by individuals
- Government serves to protect both producers and consumers from unfair policies and practices

# Pros & Cons of mixed economies



- ▶ Mixed economies have all the advantages and disadvantages of command and market economies *and*
- ▶ + Can focus on social welfare and political freedom, as well as individual liberties
- ▶ - May not lead to optimal use of resources

# Examples of mixed economies

