

Essential Question:

How do economic systems answer the questions of what, how, and for whom to produce?

Standards:

- **SS7E1a, SS7E5a, SS7E8a**

Compare how traditional, command, and market economies answer the economic questions of (1) what to produce, (2) how to produce, and (3) for whom to produce

- **SS7E1b, SS7E5b, SS7E8b**

Explain how most countries have a mixed economy located on a continuum between pure market and pure command.

Before we can discuss economic systems, we need to review the basic concepts of Economics.

What is Economics?



Activator: What is Economics?

Write your own definition of economics.

Things to think about while developing your definition:

1. Products
2. Money
3. Business

Economics – the choices we make about how to use limited resources to produce goods & services that meet our unlimited wants & needs.



Economic Terms Review

Matching Strips

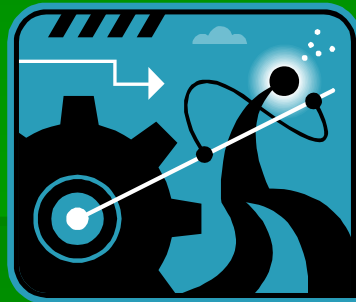
<u>Economic Terms Review</u> - Use as group or student matching strips	
Loss	When the amount of money a person or company spends is more than they receive or take in
Profit	The positive gain from an investment or business after subtracting expenses
Taxes	The money that the government collects from individuals and businesses to pay for public goods and services
Good	Something you can feel or any kind of merchandise
Supply	The amount of something available for use
Demand	How much of a product or service is desired by buyers
Scarcity	There is a limited supply of something
Service	Any kind of work performed for others
Economics	The study of the making, buying, and selling of goods and services
Producer	Anyone who makes or grows a good or performs a service
Consumer	Anyone who buys a good or service
Specialization	When an individual or a company does one part of a task and relies on others to complete the other parts of the task
Entrepreneur	A person who comes up with a product or service, or a better way to produce one
Opportunity Cost	The process of choosing one good or service over another
Interdependence	When people depend on one another

What is Economics?

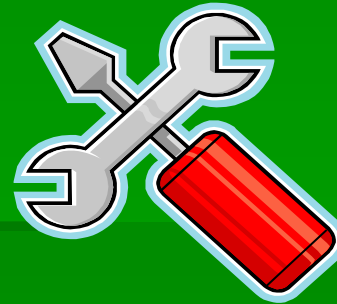
Every society has
productive resources:



Land/ Natural
Resources



Human
Capital/Labor



Capital/Tools



Entrepreneurship

What is Economics?

Productive Resources are used
to produce:

Goods



Services

What is Economics?

However, because of SCARCITY, choices must be made to answer the **Three Basic Questions of Economics.**

1. **What** goods and services will be produced?
2. **How** will the goods and services be produced?
3. **Who** will consume the goods and services?

Economic Systems



Economic Systems

A Country must decide how to distribute its resources to meet the needs of its people.

How a country makes these decisions determines its type of economic system.

**An Economic System is
the way a society
organizes the production,
distribution, and
consumption of goods
and services.**

Vocabulary Break

In small groups, sort the pictures provided as examples of production, distribution, or consumption

Economic Systems

There are 3 basic types of economic systems that have to answer three basic questions:

- (1) What to produce?
- (2) How to produce?
- (3) For Whom to produce?

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.

Types of Economic Systems:

1. Traditional Economy
2. Command Economy
3. Market Economy



Follow teacher instructions to create your Economic Systems Foldable to use for note-taking

	Illustration	Illustration	Illustration	Illustration	
Fold	Examples or Other Information	Examples or Other Information	Examples or Other Information	Examples or Other Information	Fold
Fold	What to produce?	What to produce?	What to produce?	Draw Economic Continuum	Fold
	How to produce?	How to produce?	How to produce?	Description	
	For Whom to produce?	For Whom to produce?	For Whom to produce?		
Do Not Fold on This Line	Traditional Economic System	Command Economic System	Market Economic System	Mixed Economy	Do Not Fold on This Line

Traditional Economy

- An economic system in which economic decisions are based on customs and beliefs
- People will make what they always made & 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 only what is needed to take care of oneself
- Who decides how to produce goods & services?
 - People grow & make things the same way that their ancestors did
- For Whom are the goods & services produced for?
 - Self and trading purposes (people in the village who need them)

Traditional Economy

- **Examples:**
 - Villages in Africa and South America; the Inuit tribes in Canada; the caste system in parts of rural India
- **Strengths: Predictable job and lifestyle**
- **Weaknesses: Lack resources and limited production**



Distributed Summarizing

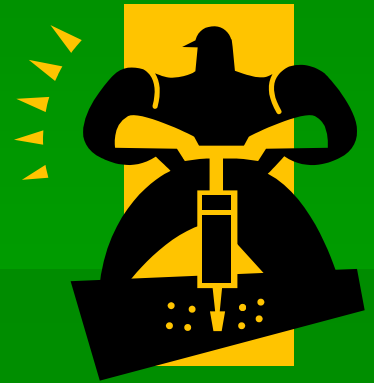
**Draw an illustration in
your foldable that
represents a
Traditional Economy.**

Command Economy

- **Government makes all economic decisions & owns most of the property**
- **Sometimes called communism**
- **Examples: Cuba, former Soviet Union, North Korea**
- **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 for?*
 - Whoever the government decides to give them to



Command Economy

- **Strengths: people do not have to worry about employment, housing, education, and healthcare**
- **Weaknesses: consumers own nothing, no choices/freedom, limited innovation by individuals**

Distributed Summarizing

**Draw an illustration
in your foldable that
represents a
Command Economy.**

Market Economy

- In a market economy, buyers and sellers answer the three economic questions
- All resources are privately owned
- *Who decides what to produce?*
 - Whatever the market demands that will produce a profit
- *Who decides how to produce goods and services?*
 - Private producers (businesses)
- *For Whom are the goods and services produced for?*
 - Consumers who demand the product and are willing to pay

Market Economy

- **Strengths:** People can start their own businesses, more choice
- **Weaknesses:** The desire for money may lead to poor quality of goods and services, business owners have to risk losing money

Distributed Summarizing:

**Draw an illustration
in your foldable that
represents a Market
Economy.**

**Distributed
Summarizing:**

**Economic
System Quotes**

Mixed Economy



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

Mixed Economy

- Most democratic countries fall in this category (there are no truly pure Market or Command economies).
- Examples: U.S., Brazil, Mexico, Canada, UK, etc.



Continuum of Economies



Summarizing Strategy

**Economic Systems
Continuum Activity**