

# Georgia Performance Standard and Essential Question

SS7E5

The student will analyze different economic systems.

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

EQ:

1. How do the traditional, command, and market economies of Southwest Asia countries answer the economic questions of (1) what to produce, (2) how to produce, and (3) for whom to produce?
2. Where are the economic systems of Southwest Asia located on a continuum between pure market and pure command?

# Economic Systems

- When deciding how to use its limited resources, every country answers 3 questions about production and distribution
  - What will be produced?
  - How will it be produced?
  - For whom will it be produced?
- How a country answers these questions depends on the type of economic system they have.

# Four types of Economic Systems

Traditional Economy

Command Economy

Market Economy

Mixed Economy

# Traditional Economy Overview

- Based on customs and traditions of a country. Economy is based on farming and hunting.
- People will make what they always make; they will do the same work their parents did.
- Examples: Some parts of Africa, India

# Traditional Economy

- **What to produce?**
  - What people need to survive.
- **How to produce it?**
  - Hunting, farming, gathering (social roles determine who does what)
- **For whom to produce?**
  - Make their own products (what they have always made)

# Characteristics of Traditional

- Found in rural, non-developed countries (some parts of Asia, South America, and Africa)
- Customs govern the economic decisions
- Technology not used

# Characteristics of Traditional

- Farming, hunting, and gathering are done the same way as the generation before
- Activities are centered toward the family or ethnic unit
- Men and women have different economic roles and tasks

# Command Economy Overview

- Government owns and operates the factors of production.
- The government would decide who would be farmers, what they would grow, and how much would be turned over to the government.
- Also called Socialism, communism
- Examples: North Korea, former Soviet Union, Cuba



# Command Economy

- **What to produce?**
  - Whatever the government decides
- **How to produce it?**
  - However the government decides
- **For whom to produce?**
  - Class reward system; waiting in line/rations

# Characteristics of Command

- Government or other central authority makes decisions about and determines how natural, capital, and human resources will be used.
- Change can occur easily, because its government driven
- Little individual freedom
- No competition between businesses

# Characteristics of Command

- Business are not run to create a profit
- Consumers have few choices in the market
- Factories are concerned about meeting quotas (not profit)

# Characteristics of Command

- Shortages often occur because of poorly run factories and farms
- Government determines your job
- Government sets the price of goods and services

# Market Economy Overview

- Individuals own and operate the buildings, machinery, property of production.
- Production and distribution questions are answered by prices and profits.
- Businesses will make products, and provide services that will earn a profit.
- Standard of living is higher in this system.
- Prices of goods depend on how much is available and how many people want it.
- Examples: US, Great Britain, Japan

# Market Economy

- **What to produce?**
  - What people want to buy and sell
- **How to produce it?**
  - Supply and demand
- **For whom to produce?**
  - Determined by how much someone is willing to pay for it

# Market Economy Characteristics

- Resources (capital and natural) are owned by individuals
- Economic decisions are made by individuals competing to earn a profit
- Individual freedom is considered very important

# Market Economy Characteristics

- Based on supply and demand (if people are willing to buy it, then businesses will make it)
- Profit is the motive for increased work rather than quotas
- Competition between businesses
- Many economic freedoms and choice in the market place



# Market Economy Characteristics

- Competition determines prices which increase the quality of the product (you want to make the best and most inexpensive product, so consumers will buy your product instead of your competitor's product)
- No government intervention in the economy
- **ALSO CALLED CAPITALIST ECONOMY**

# Mixed Economy

- Individuals own most resources and determine what and how to produce.
- Government regulates certain industries.
- Has features of both market and command economies.
- Example: China, most nations
- The US has a market economy but the government still has control over wages, social security and some policies.

# Most Countries.....

- Most countries have a mixed economy where they sway back and forth between a pure market and pure command economy.
- A pure market is an economy in which pure competition prevails. – NO GOVERNMENT INTERVENTION
- A pure command is an economy in which the government makes all decisions. – NO FREEDOM = COMPLETE GOVERNMENT CONTROL

# ECONOMIC FREEDOM CONTINUUM

PURE  
COMMAND

60.8 Turkey

66.1-Israel

PURE  
MARKET

0 10 20 30 40 50 60 70 80 90 100

Repressed

52.8- Saudi Arabia

Free



# Economic System in Israel?

- agriculture, fishing, and mining (diamonds)
- manufacturing (metal products, electronic and biomedical equipment, processed foods, chemicals, and transport equipment)
- FYI: Relatively poor in natural resources, depends on imports of petroleum, coal, food, uncut diamonds and total reliance on energy imports
- Israel has a **Mixed Economy**.

# Economic System in Saudi Arabia?

- Oil-based economy with strong government control over major economic activities.
- FYI: Possesses 25% of the world's petroleum reserves and ranks as the largest exporter of petroleum.
- The King and his advisors make most of the decisions about how and where to produce oil profits.

Saudi Arabia has a **Mixed Economy**.

# Economic System in Turkey?

- Turkey has the least economic freedom of the three other countries.
- Industries (airlines, railroads, telephone, and television) are controlled by the government.
- Recently, the government has been allowing more private ownership and more laws have been passed to protect business owners.

Turkey has a **Mixed Economy**.

# Economic System in Iran?

- Great oil wealth, but many Iranians do not share in the money.
- Government attempts to keep tighter control.
- Command economy not efficient.

Iran has a **Mixed Economy**.