Middle East Economy

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.

c. Compare and contrast the economic systems in Israel, Saudi Arabia, and Turkey.

Characteristics of Economic Systems

- Free Enterprise
- Private ownership of property and resources
- Business decisions are driven the desire to earn a profit
- There is a great deal of competition
- Supply and demand form the largest influence on what is produced
- Consumers have many choices

Command Economy

- Central ownership of property/resources (government owns everything)
- Centrally planned economy
- Lack of consumer choice

Traditional Economy

- Allocation of resources is based on rituals, habits, or customs
- Roles are defined by family
- People work together for the common good
- Little individual choice
- Examples: Early Native Americans

Mixed Economy

- Individuals and businesses as decision makers for the private sector
- Government as decision maker for the public sector
- Limited government regulation of private industries
- Most common economic system today, since no economy is completely free enterprise
- Examples: Israel and Turkey

Examples of Countries with a Mixed Economy

- **Israel** has a market economy, but the government still owns much of the land and industries, especially service industries.
- **Saudi Arabia** has an oil industry that is almost completely owned by the government through a company called Saudi Aramco.Still, it is encouraging private industries to participate in other parts of the economy.
- **Turkey** has taken great steps toward becoming more of a market economy by allowing private industries a greater role. This has been part of an effort to gain membership in the European Union (EU). The government still controls many industries, but the nation has privatized a great deal.
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SS7E6 The student will explain how voluntary trade benefits buyers and sellers in Southwest Asia (Middle East).

a. Explain how specialization encourages trade between countries.

Unequal Distribution

When all places do not have equal amounts of the same resources, there is an unequal distribution of resources. This can happen because of population growth, different environments, and the difference in cost of producing goods in one place over another. Here are two things that can happen with an unequal distribution of resources:

- **Specialization:** concentrating on producing specific goods or services. A particular place will use the resources available and learn to produce specific products very well.
- **Interdependence:** a relationship with another place to get the goods and services needed. Countries are often interdependent with each other because they each specialize in goods and services the others need. This allows for trade.

b. **Compare and contrast different types of trade barriers,such as tariffs, quotas, and embargos.**

- **Tariff:** a tax on important goods. Tariffs make trade more difficult because they raise the price of goods imported between countries.
- **Quota:** a limit on the quantity of a given product that can be imported from a particular country.
- **Embargo:** the act of not allowing trade ships to enter or leave a country's ports. A country that declares an embargo can stop all trade with other countries. More frequently, an embargo can be used by one country or group against another specific country or group. When this happens, it blocks all trade between those two groups. Because the United States disapproves of Cuba’s Communist rule, the U.S. has had a trade embargo against Cuba since 1962.

Barriers to Trade

- **Physical Barriers:** Geographical features of a location can prevent transportation from easily reaching that location. Land trade in the Middle East is made difficult by large areas of desert and mountains, and rivers in the Middle East are not very effective for trading between nations. However, most Middle Eastern countries have a connection to the ocean, making trade by sea easier.This is not the case with landlocked countries, like Afghanistan.

- **Political Barriers:** Sometimes locations and countries are not able to trade with each other because of political or cultural differences. In the Middle East, this situation often exists between Israel and its neighbors. Because Israel is mainly a Jewish nation, and the other Middle Eastern countries are mainly Arab Muslim nations, Israel does more trade with the United States and European countries than it does with other Middle Eastern countries. Israel's trade economy has also suffered because the country has felt the need to spend money on military defense, in case it is attacked by neighboring nations.

c. Explain the primary function of the Organization of Petroleum Exporting Countries (OPEC).

OPEC

- **Trade Restrictions:** Another political barrier to trade occurs when a trade organization sets restrictions. One organization that does this is the Organization of the Petroleum Exporting Countries (OPEC). OPEC is formed from countries that have the most access to oil natural resources, and most of these countries are in the Middle East. The main reason for OPEC's existence is to make sure that oil prices stay steady. Because the economies of the countries in OPEC are dependent on income from oil, prices need to stay stable for the economies of the countries in OPEC to stay stable. OPEC may therefore impose limits on the amount of oil its members can produce, which forms a trade barrier.

d. Explain why international trade requires a system for exchanging currencies between nations.

International Trade and Currencies

- Countries all over the world have different currencies, or monetary units. In the United States, we have the U.S. dollar. Israel has the new Israeli shekel, Saudi Arabia has the Saudi riyal, and Jordan has the Jordanian dinar. How can these countries trade with each other if they do not have the same currency? The answer is exchange rates. An exchange rate is how much one currency is worth when compared to another. For example, 0.7 Jordanian dinars is worth 1 U.S. dollar. Exchange rates can go up or down depending on the two nations' economies.

Additional Information:

- **Exchange Rates -** Because countries around the world have different currencies, exchange rates are a factor in international trade. An exchange rate is how much one currency is worth when compared to another. Exchange rates are constantly changing in relation to economic conditions in various countries. Many countries in the European Union have adopted the euro as their currency. This makes trade easier between these countries because they do not have to exchange currency. The United Kingdom, however, has chosen to keep the pound sterling, believing that the pound is more stable than the euro and that switching to the euro would hurt its economy.

SS7E7 The student will describe factors that influence economic growth and examine their presence or absence in Israel, Saudi Arabia, and Iran.

a. Explain the relationship between investment in human capital (education and training) and

gross domestic product (GDP).

Human resources represent the quantity and quality of human effort towards producing goods. It is also called labor. Improving the education and health of workers is considered investing in human resources.

b. Explain the relationship between investment in capital (factories, machinery, and technology) and gross domestic product (GDP).

Capital resources are goods made by people used to produce other goods and services. One example is the machines used in factories.

c. Explain the role of oil in these countries' economies.
d. Describe the role of entrepreneurship.

- **Economics** is the study of the systems of production, resources, and distribution of goods and services. Resources are available supplies of materials that can be used when needed. Three kinds of resources are human, capital, and natural resources. When there is unequal distribution of these resources, specialization and interdependence occur.
- **Gross Domestic Product (GDP) -** GDP is the most inclusive measure of an economy's output. It is defined as the market value of the total output of final goods and services produced in one year. "Nominal GDP" refers to the output of goods and services in terms of current prices, whereas "real GDP" refers to the output of goods and services in terms of constant prices, which is in terms of prices where corrections are made for changes in the value of the dollar. Per capita GDP is the GDP in an economy divided by the number of people in that economy. The per capita GDP is one indicator used as a measure of a country's standard of living.
- **Natural resources** are things found in nature, often used to produce goods and services. Natural resources are either renewable or nonrenewable. Renewable resources can be replaced, if they are managed properly. Nonrenewable resources cannot be replaced. An example of a renewable resource is timber, which comes from trees. An example of a nonrenewable resource is oil.
- **Human resources** represent the quantity and quality of human effort towards producing goods. It is also called labor. Improving the education and health of workers is considered investing in human resources. An entrepreneur is an example of a human resource and is a person who comes up with a new idea and takes a risk to produce it.
- **Capital resources** are goods made by people used to produce other goods and services. One example is the machines used in factories