

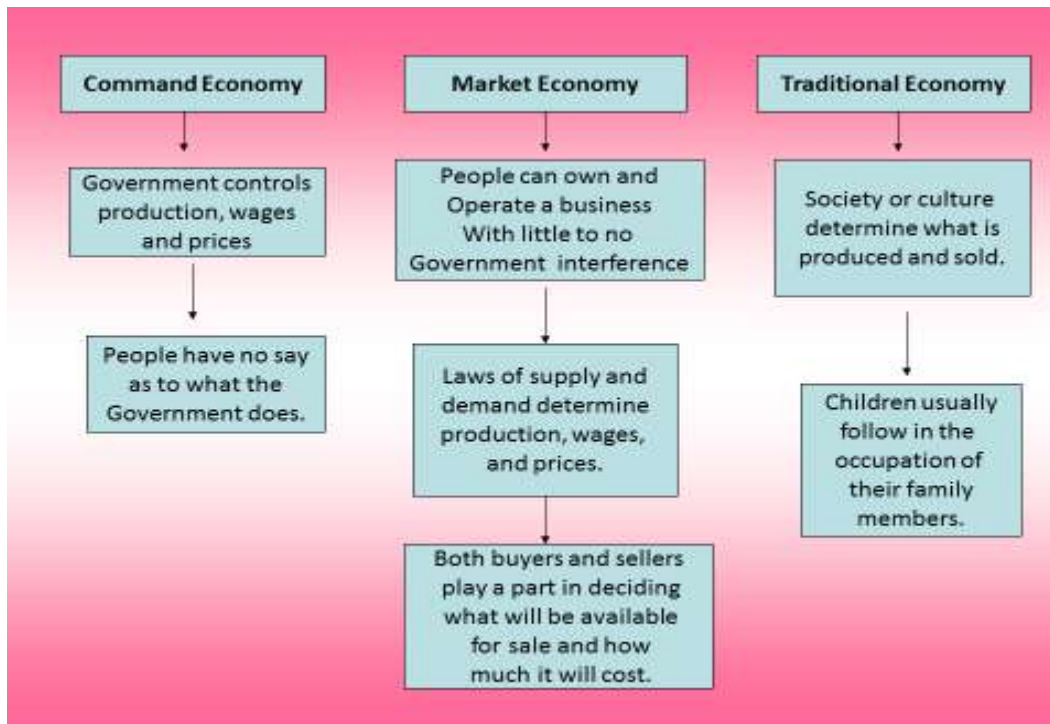
SS6E5: Analyze different economic systems

- 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 and market and pure command
- c. Compare the basic types of economic systems found in United Kingdom, Germany, and Russia

What is economics? Economics is the study of how a market makes, distributes, and consumes products and services.

3 types of systems:

1. **Traditional** systems are found in farming societies where people make what they need to survive. Social roles and culture determine how goods and services are produced, what prices and individual incomes are, and which consumers are allowed to buy certain goods.
2. In a **command** system, the government controls all production and distribution. The government decides what is produced, how products are produced & how products will be distributed.
3. In a **market** system, supply and demand determine what is produced and sold. This system is based on individual choices and voluntary trade; individuals answer the basic questions of what to produce, for whom to produce, and how to produce.
4. Most countries have **mixed economies** that fall somewhere in between pure market and pure command economies. Since no country has a pure command or pure market economic system, all economies combine aspects of both of these pure economic systems albeit to different degrees.



Every economic system has to answer three basic questions: *What to produce? How to produce it? Whom do we produce it for?*

- The United Kingdom has a **mixed market economy** that ranks as the second largest economy in the European Union.
 - (1) What to produce? The UK, similar to the US, is largely a service based economy but also has an extremely efficient agricultural sector.
 - (2) How to produce? Industries have much freedom in the UK. There have been recent moves to partially-nationalize certain industries like banking.
 - (3) For whom to produce? The private sector produces goods and services for domestic and international markets based on the market price system. Place on the continuum: The UK would be far to the market side of center on the continuum.

- Germany has a **mixed economy** known as a **social market economy**. It combines three things: a market system (free enterprise and competition), some state controlled markets, and social welfare where help is given to the poor. In 1990, when West Germany and East Germany were united, West Germany absorbed huge costs bringing East Germany's command economy into its market system. Despite that setback, the new Germany has emerged as the strongest economy in Europe!
 - (1) What to produce? Germany is primarily an export-based economy focusing on manufacturing and commodities. (2) How to produce? German businesses are largely privately owned and independent. There are increasing amounts of government involvement in the financial sectors. There is also still an issue with updating the Eastern German economy to compete and operate on par with Western Germany. (3) For whom to produce? Germany survives largely based on their exports, which are determined by global markets. Western Germany still transfers billions of dollars to Eastern German states to help modernize and update factories and production lines. Place on the continuum: Germany would fall to the market side of the continuum, but fairly far away from the United Kingdom (back towards command).

- Russia has a **mixed market economy**. The Russian economy has struggled as it transitions from a command economy under the Soviet Union government to a market economy today. Many government-owned companies are being sold to private owners, but Russia still faces financial problems and huge costs to upgrade its old manufacturing plants and industries to modern, more efficient standards.
 - (1) What to produce? The Russian government is still largely involved with many aspects of the economy and must approve any investment larger than 50 million rubles. (2) How to produce? Making large scale production changes in Russia is difficult due to the immense bureaucracy. There is a movement towards modernizing factories and agricultural equipment, but it is slow. (3) For whom to produce? Perhaps surprisingly, Russia has fairly low to moderate tax rates. Increasingly Russia is trying to allow for market interaction, but high tariffs and minimal protection of private property make this difficult. Place on the continuum: Russia is practically in the dead center of the continuum.

SS6E6: Analyze the benefits of and barriers to voluntary trade in Europe

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

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

- Tariffs are taxes charged for goods that leave or enter a country
- In order to get a product from another country, you have to pay extra for it, just like sales tax
- Tariffs cause the consumer to pay a higher price for an imported item, increasing the demand for a lower-priced item produced domestically.

- A quota is when a country limits the amount of a product that can be sold to another country.
- Quotas can cause shortages that cause prices to rise, but also protect domestic production of a product by restricting foreign competition.

- An embargo is when one country completely refuses to trade with another country.
- They are typically used when one country disagrees with policies of another country.
 - The United States has an embargo against Cuba

- The European Union (EU) was primarily established to set up free trade among countries in Europe. Today, the EU is a powerful trade bloc, making one-fifth of the world's trade. Products produced in Europe can now move freely, without tariffs, to other EU member nations. This free trade leads to tremendous cost savings for European consumers and businesses.

- Exchange rates provide a procedure for determining the value of one country's currency in terms of another country's currency. Without a system for exchanging currencies, it would be very difficult to conduct international trade. Money from one country must be converted into the currency of another country to pay for goods in that country. This system is called **foreign exchange**. The exchange rate is how much one currency is worth in terms of the other.

SS6E7: Describe the factors that cause economic growth and examine their presence or absence in Europe

- a. Explain the relationship between investment in human capital (education and training) and gross domestic product (GDP)
- b. Explain the relationship between investment in capital goods (factories, machinery, and technology) and gross domestic product (GDP)
- c. Describe the role of natural resources in a country's economy
- d. Describe the role of entrepreneurship

A. Human Capital & GDP

- Investing in human capital includes the education, training & health of employees
- Companies invest in their employees to make more money which causes literacy rates to increase because people want jobs & benefits
- Gross Domestic Product (GDP): total value of all goods & services produced by a country within a year
 - This is used to tell how rich or poor a country is
 - Raising GDP means raising standard of living
- To increase a country's GDP, a country must invest in human capital

B. Capital Investments & GDP

- Physical capital is factories, machines, etc. needed to operate a business
- Employees need physical capital to make products
- This increases GDP

C. Natural Resources of a country

- Without natural resources, countries have to import what is needed
- This adds money to the cost of goods & services
- These are needed to create jobs & trade with other countries

D. Entrepreneur

- A person willing to take risks & receive rewards by owning & operating a business
- Must hire employees
- Encourages trade
- Pays taxes to government