SS6E7: 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.

bartering – a system of exchange whereby one good/service is given in return for another; bartering does not require monetary exchange
command economy – an economic model wherein government planners make all business and financial decisions
economic system – an economic model used by governments to determine what should be produced/provided in terms of goods and services, how, and for whom
entrepreneurship – the capacity of private citizens to create new businesses independent of government direction or intervention
free enterprise – the creation, maintenance, and expansion of businesses outside the control or influence of the government
market (or capitalist) **economy** – an economic model which the laws of supply and demand (not government oversight) determine what is produced/consumed and at what cost
production quota – the required amount of a specific good that must be produced in a given timeframe
subsistence – producing only what is necessary for personal use/survival
traditional economy – an economic model governed by custom, habit, and history
wage – term for one's financial earnings

- Every country on Earth must be able to answer three basic economic questions: 1) What should the nation produce/provide? 2) How should the nation produce/provide this product/service? 3) For whom should the nation produce/provide this product/service? Countries must adopt and adapt various economic systems to answer these three questions. There are three basic economic systems:
- The **traditional economy** is historically associated with small-scale economies. It is a system in which the decision of what to produce/provide, as well as how to distribute or consume it, is based on custom and habit. Economic roles tend to be stationary, meaning inherited or generational (a family of carpenters will have children who grow up to be carpenters.) This system does not provide for large scale economic growth, and is frequently **subsistent** in nature. (**Bartering** is a feature of traditional economies.)
- The command economy is one in which the government of a nation makes all the economic decisions. This includes government ownership of land and resources, as well as government control of major industries (transportation, energy) It can also include government assignment of jobs, wage controls, and mandatory **production quotas**. Command economies tend to suffocate **entrepreneurship** and **free enterprise** in an effort to maintain economic stability.
- The **market** (or capitalist) **economy** places economic decisions in the hands of the people. The law of supply and demand command what goods/services are produced/provided, at what price, etc. This system encourages entrepreneurship,

but can be economically unstable. Its success depends upon the businesses to adapt their products/services to the everchanging wants/needs of consumers.

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b. Explain that countries have a mixed economic system located on a continuum between pure market and pure command.

economic continuum – a 0-100 scale which ranks world economies from most command-leaning (0) to most market-leaning (100)
mixed economy – term used to describe the market/command blending of all modern world economies

- No world economy is purely market or command. It is more accurate to characterize an economy as market-leaning or command-leaning on the **economic continuum.** All modern world economies can be described as **mixed economies.** They mix market and command principles in various amounts to suit their national interests. The Heritage Index ranks a country's economy based on four criteria: rule of law, government size, regulatory efficiency, and open markets.

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c. Compare and contrast the basic types of economic systems found in the United Kingdom, Germany and Russia.

Brexit – 2016 referendum whereupon a majority of British citizens voted for the U.K. to withdraw from the European Union
domestic – term which refers to the products of services originating in one's own country; it is the antonym of foreign
Eurozone – European Union member nations who use the euro as their common currency
GDP per capita – the average annual income of a nation's citizens; per capita is Latin for "by each head"
gross domestic product (GDP) – the estimated total value of all the final goods and services produced in a nation in a year's time
subsidization – money granted by the government to assist a business or industry in lowering the cost of its product/service

- The economy of the United Kingdom may be described as mostly market-leaning. Its main economic sectors are services, manufacturing, and construction. Private and intellectual property rights are well-protected and unemployment rates have been steadily declining. How the approaching **Brexit** will impact the U.K.'s economy remains to be seen.
- Germany's economy is slightly less market-leaning than the U.K.'s, although, in terms of GDP and per capita incomes, Germany has the stronger overall economy. The German government does regulate certain elements of state agriculture, energy, and telecommunications; the automotive and construction industries in Germany are also somewhat politically influenced, but otherwise economic decisions are left up to the German people. Germany has invested heavily in economic rescue packages for fellow **Eurozone** members.

- The economy of Russia, on the other hand, is mostly command-leaning. Many of the market reforms Russia sought to make after the collapse of the Soviet Union have struggled in recent years. Government is widespread in Russia, especially when it comes to starting a new business. Protection of private and intellectual property rights is weak. Russia’s extensive **subsidization** of the energy sector, along with its policy of import subsititution, discourages foregin trade and investment. Government ownership of the vast majoroty of private **domestic** banks, shipping, and aerospace technology development have also contributed to Russia’s repressed private sector development. The Russian economy is dominated by the oil and natural gas industries; however, the steady drop in oil prices worldwide over the last several years has hurt Russia’s economic growth.