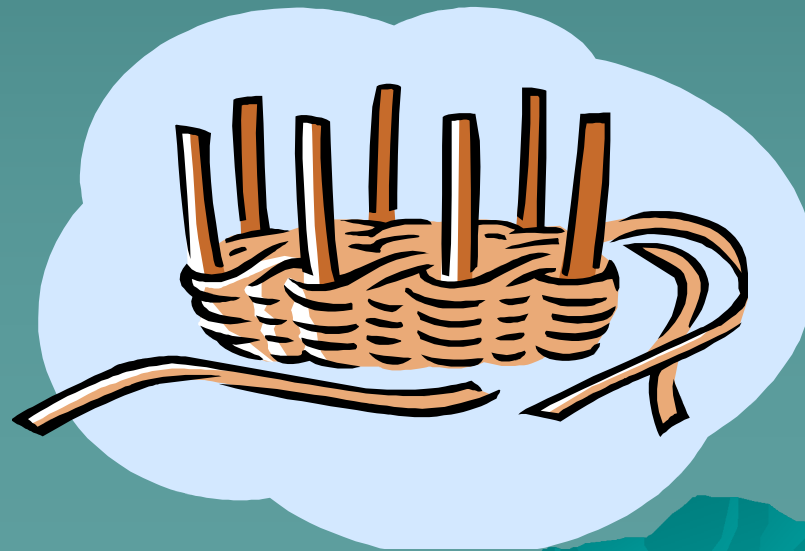


# Three Essential Questions of Production

Economic Understandings Standard  
SS7E5:

The student will analyze different  
economic systems.



Every society must deal with providing goods and services for its people.



Each society must also develop an economic system that can decide how to use the limited resources of that society as well.



Three basic questions must be answered:

a) What goods and services must be produced?

b) How will these goods and services be produced?

c) Who uses the goods and services that are produced?

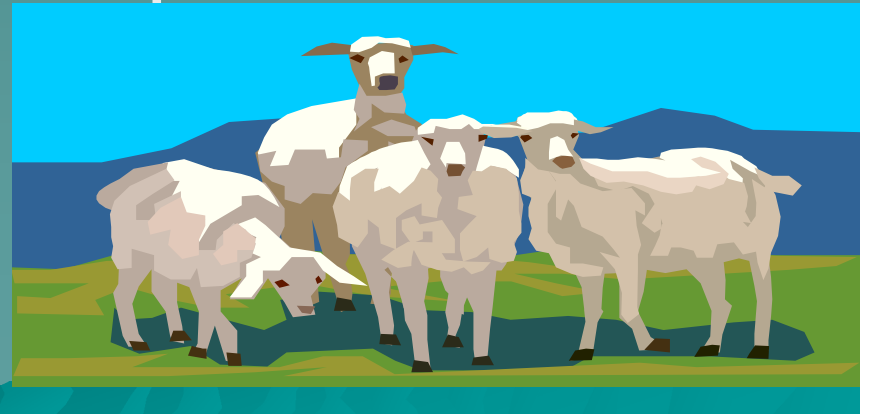
# Definition:

- ◆ An economic system is a collection of formal and informal institutions, laws, systems of beliefs, and values which provide a framework for collective decision making.



# Standard SS7E5

- ◆ 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.



# Traditional Economy

## ◆ What is produced?

- ◆ In this type of economic system, what is produced is based on custom and the habit of how such decisions were made in the past.



Many traditional economies are found in **rural** areas where people depend on members of their extended families.





The work in rural areas is often subsistence farming, herding animals, or in simple crafts and trade.

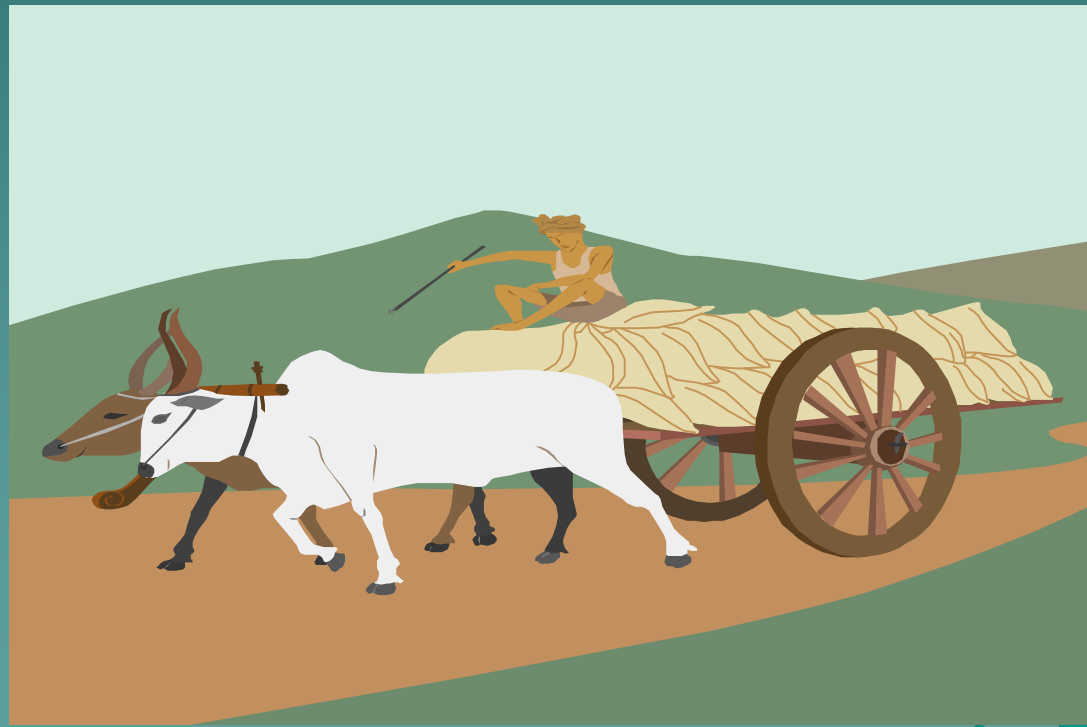


# How is it produced?

- ◆ The methods of production are primitive. Bartering, or a system of trading in goods and services, replaces currency in a traditional economy.



No country today has a primarily traditional economy.



# For whom is it produced?

- ◆ The primary group for whom goods and services are produced in a traditional economy is the tribe or family group.



# Command Economy

- ◆ A command economy is a more centralized economy in which government planning groups make the basic economic decisions for the workers.



# How is it produced?

- ◆ In a command economy, the central government decides what goods and services will be produced, what wages will be paid to workers, what jobs the workers do, as well as the prices of goods.



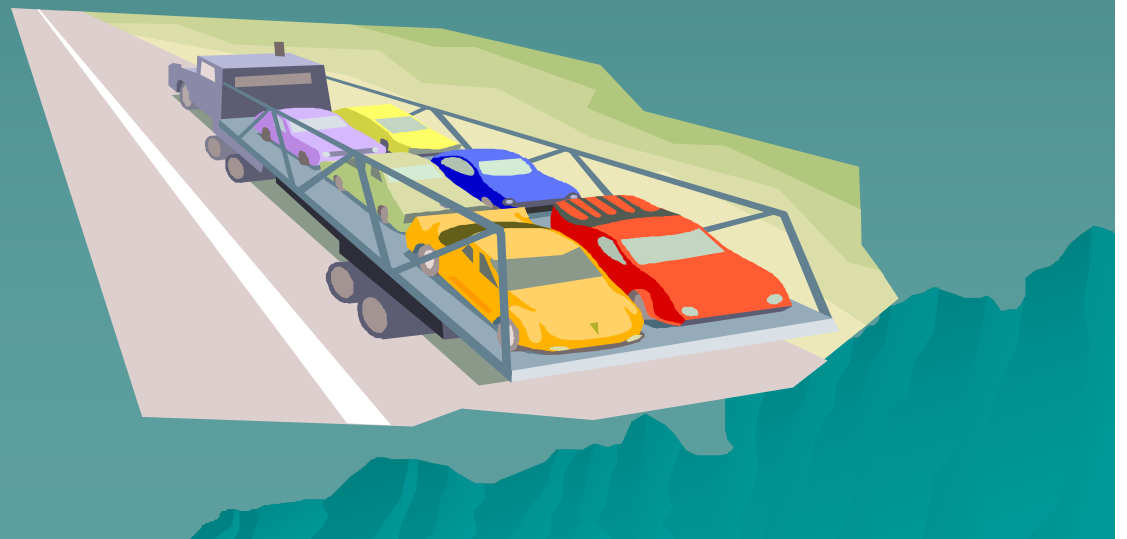
In a command economy, no one  
can start  
their own business.

The government determines  
how and where the goods  
produced would be sold.



# For whom is it produced?

- ◆ In a command economy, the government determines how the goods and services are distributed.



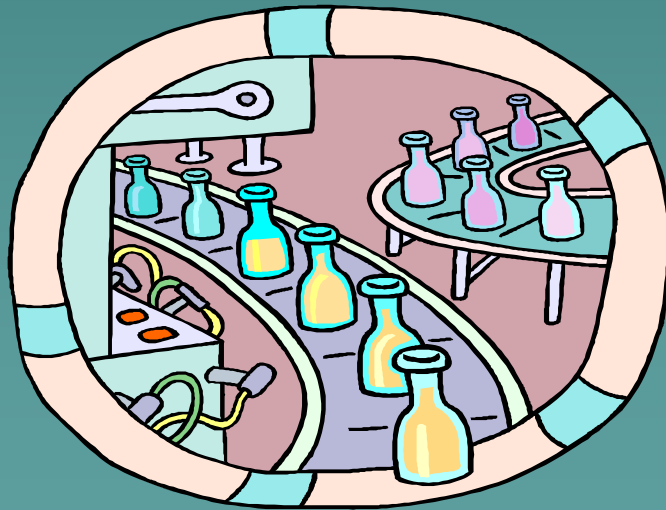


# Market Economy

- ◆ A market economy is one in which individuals decide what to produce and what to buy.



In a market economy, the wants of these consumers and the profit motive of the producers will decide what will be produced.



Other names for a market economy are capitalism, free enterprise, or laissez-faire.



# How is it produced?

- ◆ Labor (the workers) and management (the bosses/owners) together will determine how goods will be produced in a market economy.



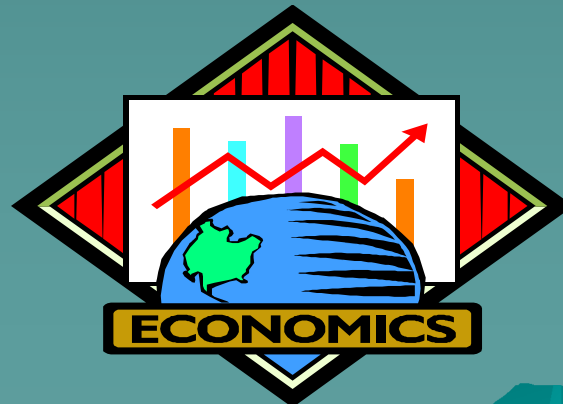
# For whom is it produced?

- ◆ In a market economy, each production resource is paid based on what is contributed to the production of goods and services.



# Standard SS7E5

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

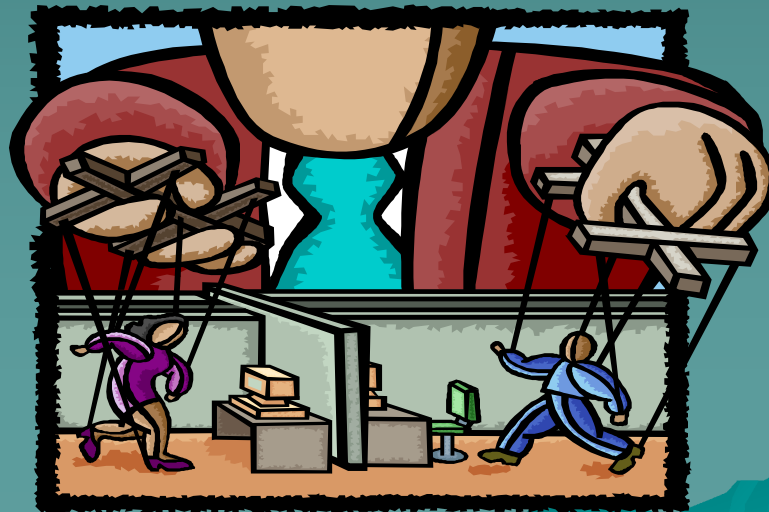


# Mixed Economy

- ◆ Nearly all economies in the world today have characteristics of both market and command economic systems.



This means that most countries have characteristics of a free market/free enterprise as well as some government planning and control.





# SSD7E5

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



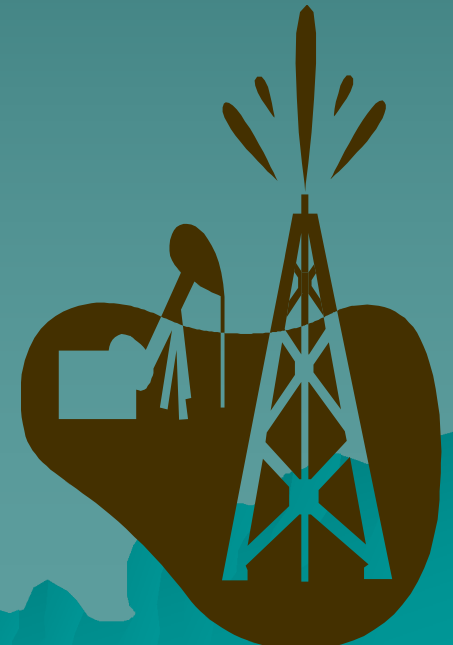
# Israel

- ◆ The Israelis have built an economy based on advanced technology that has allowed them to make up for much of what they lack in farmland and natural resources.

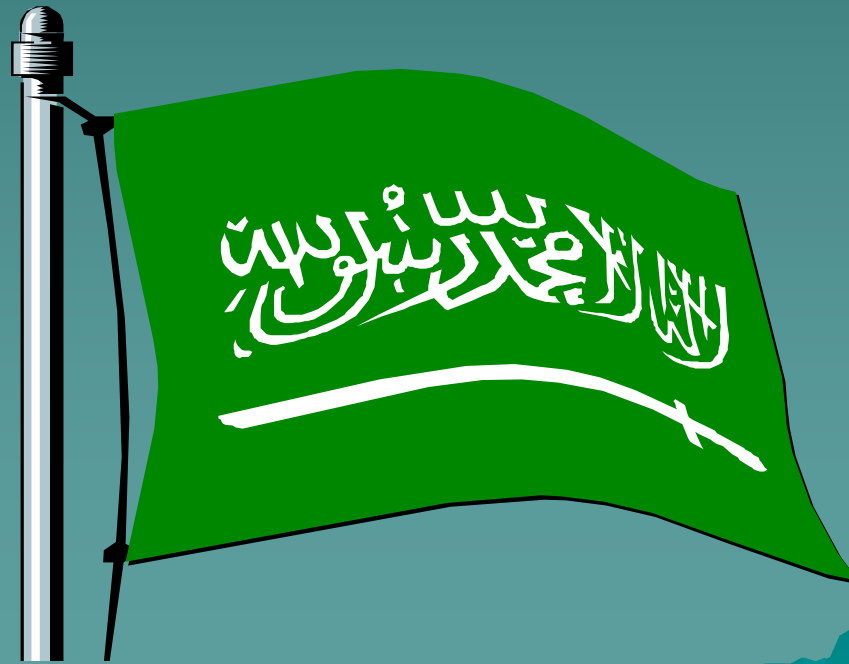


# Saudi Arabia

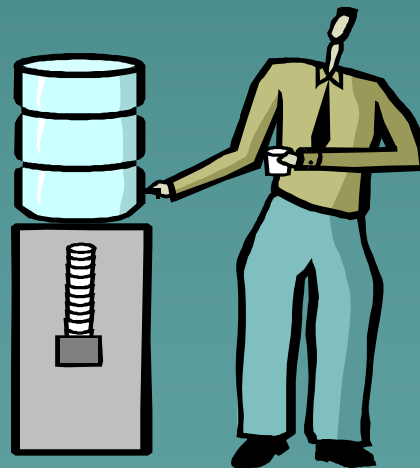
- ◆ Although much of Saudi Arabia is desert, they have rich oil reserves that allow them to buy the goods that they can't produce.



- ◆ The Saudi king and his advisors decide how and where to use the profits they gain from oil



In Saudi Arabia, they have invested a lot of their wealth in technologies that allow Saudis to produce goods they wouldn't be able to otherwise in a desert climate.



# Iran

- ◆ Iran has great oil wealth, but more of a mixed economy has grown in spite of government attempts to keep tight control.



Iran's command economy has not been very efficient in recent years. Even though there is oil wealth, many Iranians do not share in the money.



# Turkey

- ◆ Turkey has the least economic freedom of the countries mentioned. Industries like airlines and railroads have been controlled by the government.





Turkey's government has controlled the television and radio industries, as well. In recent years, their government has loosened its hold on these key businesses.



More private ownership has  
been allowed and  
laws have been passed to  
protect business owners.

