TYPES OF ECONOMIC SYSTEMS

SSEF4 – The Student will compare and contrast different economic systems and explain how they answer the answer the three basic economic questions of what to produce, how to produce, and for whom to produce.

COMMAND ECONOMY

Who owns the resources?

- In a command economy the government owns all the resource and the government answers the three basic economic questions.
- How important is competition?
  - Individuals have little, if any influence over economic functions
  - Since resources are owned by the government, there is no competition
  - The purpose of business is to provide goods and services, not to make a profit
  - Consumers have few, if any, choices in the market place
  - The government sets the prices of goods and services

COMMAND ECONOMY

- Distributes wealth among all of society
- Can ensure stability because it does not coincide with business cycles (in theory)
- Fairness is important, in theory
- Lack of incentives for innovation
- Infringes on personal freedoms
- Cannot easily adjust to change

MARKET ECONOMY

Who owns the resources?

- Privately owned (businesses and individuals)

Who answers the economic questions?

- Individuals and businesses

How important is competition?

- Competition is very important – based on supply and demand

How well does a market economy respond to change?

- A market economy responds to change very well (producers will produce what consumers want/demand)

MARKET ECONOMY

How much security?

- Does not always provide basic needs of everyone in society, which can lead people to slip into poverty.

How important is fairness?

Everyone has equal opportunity.

Little government intervention

Adjusts to change easily

Freedom? – Very important and a market economy has much freedom

- Consumers can buy whatever they like in whatever amounts they want.
- Prices determined by market forces (supply and demand); competition brings down prices.

MIXED MARKET ECONOMY

Combines elements of pure market and command economies

Government and individuals share the economic decision making process

Government guides and regulates production of goods and services

Resources are owned by individuals

Can focus on social welfare and political freedom, as well as individual liberties.

Government serves to protect both producers and consumers from unfair policies and practices.

- Government intervention can hinder progress
- May not lead to optimal use of resources

TRADITIONAL ECONOMY

Based on traditions and customs

Economic activities are usually centered toward the family, tribe, or ethnic group

Resources are allocated based on inheritance

Farming, hunting, and gathering are done largely in the same fashion as the generation before

Choices are determined by environment

Little or no use of technology

- Does not allow for growth and development
- Changes are slow

There is little social mobility (your role is determined by birth)

Individuals often have no control over environmental factors