

Economic Systems

How the Government influences
how I make money.



Quick Review:

- Take out a sheet of paper and answer the following questions:
 - What are Goods?
 - What are Services?
 - What are Resources?
 - What is Scarcity?

Economic Systems

- Def. The method used by a society to produce and distribute goods and services.
- Or, How the government tells us what we can get and how to get it!

All Economic Systems Must Consider the Following Questions:

1. What goods and services to produce?
 2. How will they produce them?
 3. Who will get them?
 4. How much will they produce now, and how much later?
- Each economic system answers these questions in a **DIFFERENT WAY**.

Types of Economic Systems

There are 3 basic types of economic systems.

1. Traditional Economy



- Economic questions are answered by habits and customs (the way it has always been done)
- Children work the same jobs parents worked, often farming or hunter/gatherer
- Fear Change!
- Ex. Eskimos, the Amish, Pigmies, Bush People



2. Command Economy

- The government answers the basic economic questions
- **Advantages:** able to act quickly in emergencies, provide for all people equally
- **Disadvantages:** Inefficient, no incentive to work hard or be creative
- **Ex. Communist Countries (China, Vietnam, North Korea, former Soviet Union, Cuba)**

Hi





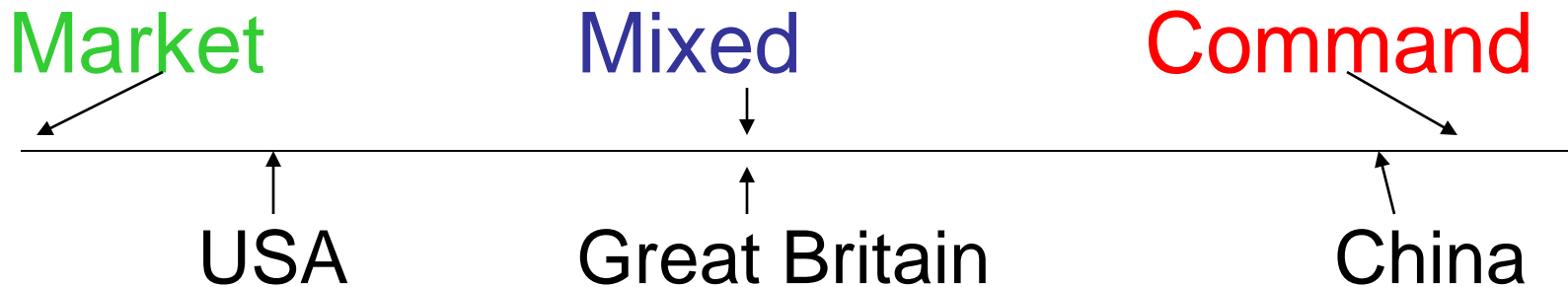
3. Free Market Economy

- Economic questions are answered by individual buyers and sellers.
- Supply and demand influence economy
- People act out of self interest; motive for profit (money) drives the economy
- Also known as FREE ENTERPRISE or CAPITALISM
- Ex. The United States, Western Europe, Japan



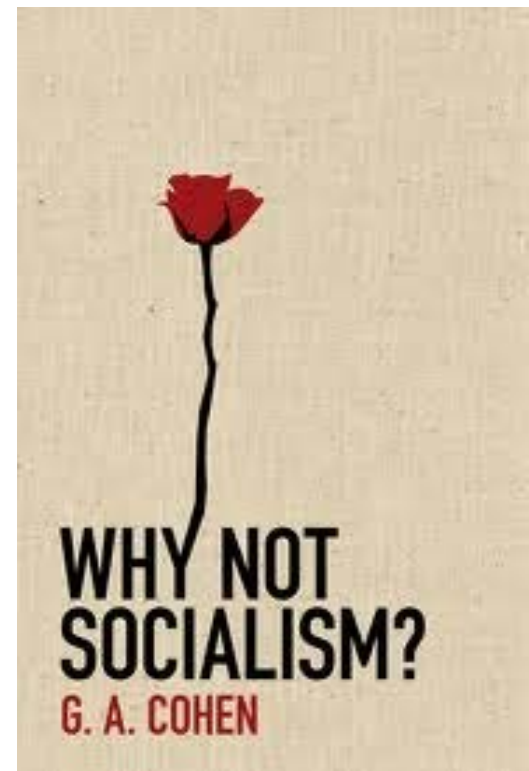
I lied!

- I said there were 3 types of economic systems, but there is a 4th!
- **Mixed Economy:** No economy is pure market, pure command or pure traditional, elements of each appear in all economies, some have more elements of one economy than another.



American Mixed Economy

- While the United States is mostly a free market economy, it does have elements of a command economy.



Features of American Free Market Economy

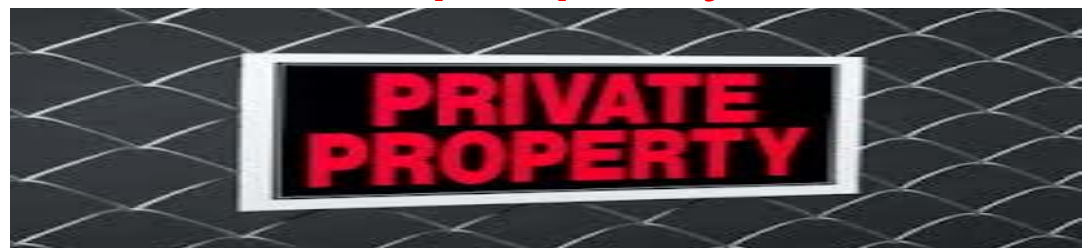
1. **Economic Freedom:** individuals have the right to choose



2. **Competition:** more than one producer of good/services insures choice



3. **Private Property:** individuals have the right to own their own property, including business



Features of American Free Market Economy (cont)



4. Self-Interest: individuals make decisions based on what is best for them
5. Voluntary Exchange: individuals may freely buy and sell goods
6. Profit Motive: individuals are driven by a desire to profit (make money)



Features of American Command Economy

1. Government regulation of some business practices

- Ex. Wages, labor hours, safety practice.



2. Government limits certain choices

- Ex. Cannot buy or produce certain goods/services

3. Government provides aid to the needy

Ex. Medicare, Medicaid, welfare



Child Welfare
Services

My Pizzeria

- How would my pizzeria function under different economic systems?

My Pizzeria in a Free Market

- / answer the basic economic questions!
- / determine how much cheese and pepperoni goes on the pizza
- / determine the quality of the cheese and pepperoni
- / set my employees wages
- / set my business hours

My Pizzeria in a Command Economy

- ***The government*** answers the basic economic questions
- ***The government*** sets the amount of cheese and pepperoni on each pizza
- ***The government*** determines quality of cheese and pepperoni
- ***The government*** sets employees wages
- ***The government*** sets business hours

Problem: What does ***the government*** know about pizza?

My Pizzeria in a Mixed Economy

- ***The Government and I*** both answer the basic economic questions
- ***I*** determine the amount of cheese and pepperoni on the pizzas; ***government*** determines the quality of cheese and pizza
- ***I*** set employee wages; ***government*** sets minimum wage for employees
- ***I*** determine business hours; ***government*** determines whether I am safe to be open or not