

Types of Economic Systems Worksheet

There are a few types of economic systems that exist in our world. But before we discuss them, we need to know what an economic system is. Basically, it is the process by which humans deal with scarcity (limited natural resources, time, money, water etc.). When confronted with this problem of scarcity, humans must address three important questions in order to ensure that scarce resources are used properly. The three basic economic questions are as follows.

3 Basic Economic Questions:

1. What goods and services should be produced?
2. How should the goods be produced?
3. Who should the goods be produced for?

4 Factors of Production:

1. Land - provides the natural resources.
2. Labor - provides the man power.
3. Capital - provides the equipment and tools.
4. Entrepreneur - the business person who provides the idea.

Directions: Using the questions above and notes below to complete the table and questions below. Explain how each economic system answers the 3 basic economic questions.

Traditional System:

A pure traditional economy answers the basic economic questions according to tradition. Things are done as they were in the past based on tradition, customs and beliefs (religious). The customs and habits of the past are used to decide what and how goods will be produced, distributed, and consumed. This means that in a traditional economy, things are done how they have always been done (based on tradition). In this system, members of the society know early in life what their role in the society will be. Since jobs are handed down from generation to generation (grandfather, to father, to son), there is very little change in the system over generations. In a traditional economy, people must fulfill their traditional role. If someone does not do his or her part, the system can easily break down. People in traditional economies usually are part of farming, hunting and gathering, or herding societies, just like their ancestors. There are no traditional economies in Europe. The traditional economies that exist today are in developing countries (poor countries).

Communist or Command System:

The individual has little influence over how the economic questions are answered in a pure command system. The government controls the factors of production and makes all the basic economic decisions. The government even decides the role everyone will play. It guides people into certain jobs.

In a command economy, the government determines which goods and services to produce, how much everything will be sold for, and how much people will get paid. Individuals and corporations do not own businesses or farms, instead businesses or farms are owned by the government. Workers are told that they have a certain amount of time to make a certain amount of goods. This is a quota. The government gives quotas to all workers, and when every worker meets every quota, then everyone in the country will have the goods and services they need whenever they need them. When workers do not meet their quotas, then shortages occur. A shortage is when there is not enough of something to satisfy the needs of a country.

The Soviet Union was an example of a command economy. After the Soviet Union collapsed, Russia adopted a mixed economy. However, the government still owns and

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controls many large businesses and has a lot of laws in place to limit private ownership of businesses. Command economies are most common in countries with a communist government.

Examples: North Korea, Cuba

Market or Capitalist system:

Capitalism is a pure market economy. In this system the government does not get involved. Individuals own the factors of production and they decide the answers of the basic economic questions. The market is the freely chosen activities between buyers and sellers of goods and services. Decisions are guided by changes in prices that happen between buyers and sellers in the marketplace. Other names for market systems are free enterprise, capitalism, and laissez-faire. In a market economy, individuals or corporations generally own businesses and farms. Each business or farm decides what it wants to produce. The law of supply and demand determines the price people pay for things. **Supply** is the amount of goods available and **demand** is how many consumers want the goods. Market economies are great for entrepreneurs because they get to have economic freedom.

Most of Europe has a somewhere between a market and mixed economy, including the United Kingdom. The market economy of the United Kingdom is considered one of the most "free" economies in Europe. That means that businesses can operate without too many rules from the government. The rules from the government are only there to protect the people, such as property rights rules. People are able to start a business

whenever they want and are able to do it quickly. Market economies are most common in countries with a democratic government. Examples: the underground economy, 19th century Britain.

Mixed Economic System:

Many economist doubt that "pure" economic systems ever existed. A mixed economic system contains elements of the market and command systems, with elements of traditional as well. For example, there is some private ownership in the People's Republic of China. Some private ownership also existed in the former Soviet Union. Examples: United States, most other nations.

Characteristics of the United States' Mixed Economic System:

- Not all decisions are made by individuals reacting to the market.
- Federal, state, and local governments make laws to regulate some areas of business.
- Public and private sectors contribute to the economy in varying proportions. For example, federal defense spending can boost the economy; the Postal Service is a quasi-governmental corporation.
- Government steps in to handle inequities in the system. Many social/welfare programs were created during the 1930s (Great Depression).
- Traditional celebrations like Christmas affect portions of the economy.
- In addition to privately funded education, government funded public schools provide free education.

ECONOMICS

	<p>Economics:</p> <p>Economic System:</p>
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Traditional	Command	Market	Mixed
<ul style="list-style-type: none"> -An economic system where tradition and custom govern economic decisions -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 	<ul style="list-style-type: none"> -The government or other central authority makes all economic decisions -Individuals have little, if any, influence over economic functions -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 -Factories are concerned with quotas -Consumers have few, if any, choices in the market place -The government sets the prices of goods and services 	<ul style="list-style-type: none"> -Economic decisions are made by individuals competing to earn profits based on supply and demand -Resources are owned by individuals -Profit, not quotas, is the motive for increasing work -Competition determines price and increases the quality of products -Individual freedom is considered very important; individuals have freedom to make economic decisions -Also called "capitalist" economy 	<ul style="list-style-type: none"> -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 -Government serves to protect both producers and consumers from unfair policies and practices

	Traditional	Command	Market	Mixed
Advantages	<ul style="list-style-type: none"> -Little friction among members because there is little competition -Individual roles are clearly defined -System is generally well-understood by participants 	<ul style="list-style-type: none"> -Can ensure stability because it does not coincide with business cycles -Serves people collectively instead of individuals; focus on equality -Distributes wealth among all of society -Products produce fulfill needs 	<ul style="list-style-type: none"> -Prices determine by market forces (supply and demand); competition brings down prices -Consumers can buy whatever they like in whatever amounts they want -Adjusts to change easily -Little government intervention -Great variety of goods and services -Capital flows to where it will get the greatest return 	<ul style="list-style-type: none"> *See advantages of command and market economic systems -Can focuses on social welfare and political freedom, as well as individual liberties
Disadvantages	<ul style="list-style-type: none"> -Does not allow for growth and development -Changes are slow -There is little social mobility (your role is determined by birth) -Does not take advantage of technology -Individuals often have no control over environmental factors 	<ul style="list-style-type: none"> -Often there is insufficient resource distribution, ie. Shortages and/or surpluses -Cannot determine societies objectives and consumer preferences as well as market can -Lack of incentives for innovation -Infringes on personal freedoms -Can often lead to corruption among state planners -Cannot easily adjust to change 	<ul style="list-style-type: none"> -Does not always provide basic needs of everyone in society, which can lead people to slip into poverty -May make it difficult for government to provide adequate social services -There are occasionally market failures -People can make choices which are harmful to themselves and to others 	<ul style="list-style-type: none"> *See disadvantages of command and market economic systems -May not lead to optimal use of resources -Government intervention can hinder progress