


Economic Systems





Types of Systems

- **All societies have an economy—the type is based on answers to What? How? And for Whom? To produce**
 - **3 Major types**
 - **traditional**
 - **command**
 - **market**
 - **Traditional**
 - **Allocation of scarce resources and most economic activity comes from habit, ritual or customs**
 - **Usually social behavior based on custom**
 - **Individuals don't make decisions on what they want, determined by elders**
 - **Ex: Inuit tribe, Aborigines**
 - **Advantages**
 - **Everyone knows their role**
 - **Little uncertainty of what and how to produce, for whom is usually themselves**
 - **Disadvantages**
 - **Discourages new ideas/technology**
 - **Punishes people that break rules**
 - **Lower standard of living**
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Command


- **Government decides questions of production**

- **Ex: former USSR, Cuba**

- **Advantages**


- **Can change direction in short time span (agriculture to industry)**
- **Little uncertainty—decisions made for you**
- **Some education, health care, public services available at little or no cost**

- **Disadvantages**

- **Not designed for consumer wants—basic needs provided**
 - **Sacrifice for the good of the state and benefit for future generations**
 - **No incentive to work hard—just enough to fill quota**
 - **Large bureaucracy**
 - **Clerks, planners, etc.**
 - **Slow decision making**
 - **Higher costs of production**
 - **Little flexibility—discourages change**
 - **Individual abilities not considered**
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Market

- **People and firms act in their own best interests**
 - **Allow buyers/sellers to come together to exchange goods & services**
 - **Ex: US, Japan, Germany**
 - **Advantages**
 - **Over time can adjust to change**
 - **Individual freedom**
 - **Little government interference**
 - **Decentralized decision making**
 - **Variety of goods/services**
 - **High consumer satisfaction**
 - **Disadvantages**
 - **Doesn't provide for basic needs of ALL members**
 - **Doesn't provide enough services people highly value**
 - **Ex: education, health care**
 - **High degree of uncertainty for workers & businesses**
 - **Can fail if 3 conditions are not met**
 - **Reasonably competitive markets**
 - **Resources able to move from one activity to another**
 - **Consumer access to information to make wise choices**
 - **Government helps to ensure these**
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7 Economic Goals

- **Economic Freedom**—individual choice in occupation, employers, uses for \$
 - **Economic Efficiency**—benefits gains greater than costs
 - **Economic Equity**—equal pay for equal work, ads shouldn't make false claims
 - **Economic Security**—economic protection during illness or layoffs
 - **Full Employment**—system should provide as many jobs as possible
 - **Price Stability**—low inflation, adds certainty and confidence to consumers
 - **Economic Growth**—growth so that people can have more/better goods/services
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5 Characteristics of Free Enterprise

- **Economic Freedom—choices for individuals and businesses**
 - **Voluntary Exchange**
 - **Freely and willingly engaging in market transactions**
 - **both should have feeling they are better off**
 - **Private Property rights—people own and control their possessions (tangible and intangible)**
 - **Profit Motive—free to risk in business venture**
 - **Competition—struggle among sellers to attract consumers while lowering costs**
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Roles of Entrepreneur, Consumer, Government

● Entrepreneur

- Organizes and manages land, capital, labor to achieve profit
 - Most are small business owners, few become rich and famous
 - Ex: Bill Gates, Ray Kroc
 - High rate of failure
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Consumer

- **decision makers or driving force for production**
 - **consumer sovereignty**
 - **successful products—SUVs, DSL, iPod**
 - **unsuccessful—celery Jello, New Coke**
 - **consumer wants change over time with exposure to new ideas**
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Government

● Protector—enforces laws

- Misleading advertising
- Unsafe food/drugs
- Environmental hazards

● Provider & Consumer—provides goods/services

- National defense
 - Education
 - Welfare
 - Roads
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● **Regulator—preserves competition**

- **Zoning**
- **Banking industry**
- **Communications**
- **Can be controversial—businesses don't like to be told what to do**

● **Promoter of National Goals**

- **Functions to reflect goals**
- **Social Security**
- **Minimum Wage**
- **40 Hour work week**

● **because government makes modifications into economy, really mixed economy**

