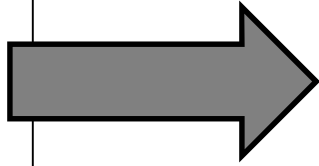


Economic Systems

The Key Economic Questions:

1. What goods and services should be produced?



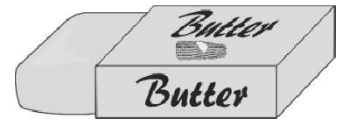
The economic systems: Traditional, Command, Free Market, Mixed Market

All production decisions come at opportunity costs. What should a society focus on?

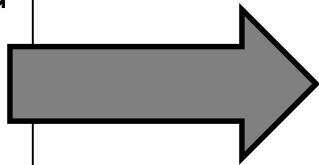
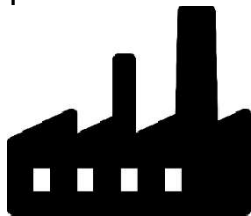
- Consumer Goods
- Defense
- Welfare
- Education
- Healthcare



What resources will meet our needs and wants?

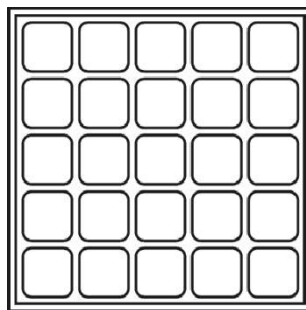


2. How should these goods and services be produced?



The factors of Production are necessary to production, but how should they be used?

- Should we use solar power or coal?
- Industrial or organic farms?



What are our values? Private ownership, profit motive, consumer sovereignty, competition, government regulation, freedom, security, equity, growth, efficiency, price stability, full employment, sustainability

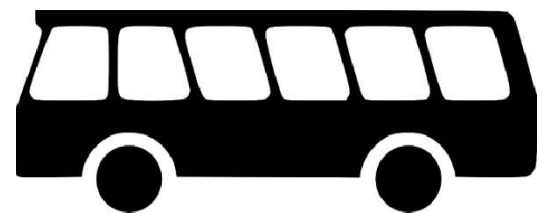
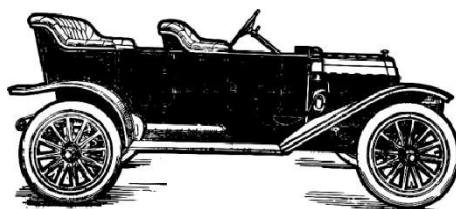


3. Who consumes these goods and services?



Who gets what resources?

- A college education or a GED?
- A car or a bus pass?
- A mansion or an apartment?



Strategies for allocating scarce resources: price, majority rule, contests, force, sharing, lottery, authority, first come-first served, personal characteristics

Economic Systems

The Seven Economic Goals:

Every Fine Family Expects Some Goods and Services.

1. **Efficiency:** Making the most of resources
2. **Freedom:** Freedom from government intervention in production, jobs, and business
3. **Full Employment:** Almost all who are willing and able are employed
4. **Equity:** Fair distribution of wealth
5. **Security and Predictability:** Goods and services assured and safety net in case of economic disaster
6. **Growth and Innovation:** Innovation brings economic growth, which brings higher standards of living
7. **Stability:** Business cycle has only predictable ebbs and flows

Economic systems all have basic goals, but different systems place more focus on some—the opportunity cost is the others.

Which value is most important?

STANDARD OF LIVING

Level of economic prosperity achieved through growth and prosperity.

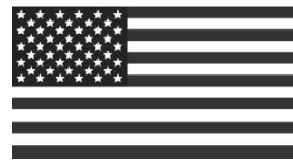


FACTOR PAYMENTS

Income people get for providing the factors of production.

SAFETY NET

Government programs that protect people from the effects of economic downturns.



PATRIOTISM

Love of country.

A nation's answer will help determine its economic system.

1. **Traditional Economy:** Tradition and habit determine production and consumption.
2. **Free Market Economy:** Individuals determine production and consumption.
3. **Command Economy:** The government determines production and consumption.
4. **Mixed Economy:** Individuals determine production and consumption with the government playing a limited role.

Traditional

The Key Economic Questions:

1. What goods and services should be produced?



2. How should these goods and services be produced?



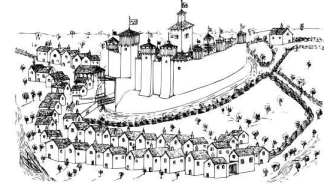
3. Who consumes these goods and services?



Traditional economies are centered around family, tradition, and habit. The family is at the heart of the traditional economy. Change comes slowly and innovation is typically not sought.

SMALL

Close-knit families and communities



Production is focused on what is needed to survive.



RELIGIOUS

Tradition and religion are valued.



Typically hunting and agriculture

STAGNANT

Innovation is not sought.



SUSCEPTIBLE

Natural disasters can be devastating because of the lack of resources to deal with them.

The family and the community.

EXAMPLE

Haiti

- Though technically free-market, 2/5 of people depend on agriculture, mostly subsistence farming.
- Poorest nation in the Western Hemisphere
- Poor access to electricity
- GDP per capita, 2017= \$1,800



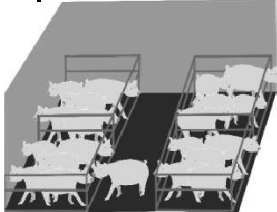
Command

The Key Economic Questions:

1. What goods and services should be produced?



2. How should these goods and services be produced?



3. Who consumes these goods and services?



Command economies are also called centrally planned economies because the government bureaucracy makes all decisions regarding production and distribution.

SOCIALISM

"Political philosophy based on the belief that democratic means should be used to distribute wealth evenly throughout a society." (Prentice Hall)

The government decides, often at the expense of consumers and consumer goods.

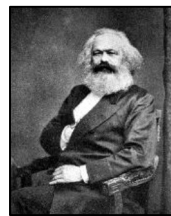
COMMUNISM

"Political system that...is characterized by a centrally planned economy with all economic and political power resting in the hands of the government." (Prentice Hall)

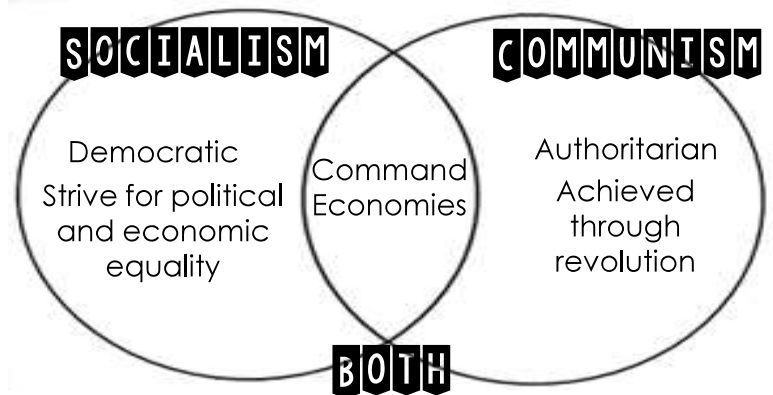
AUTHORITARIAN

A government that demands obedience and does not allow individual freedoms.

The government decides where people work and what they will be paid.



Karl Marx, author of *The Communist Manifesto*



The government decides how goods will be distributed, and there are often shortages.

EXAMPLE

North Korea

- Focus on military spending at the cost of consumer goods. Many consumer shortages.
- Famine and malnutrition have been a problem.
- GDP per capita, 2015= \$1,700



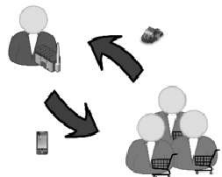
Free Market

LAISSEZ-FAIRE

Government should not intervene in the market.

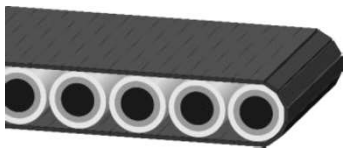
The Key Economic Questions:

1. What goods and services should be produced?



Producer - Consumer

2. How should these goods and services be produced?



3. Who consumes these goods and services?



The free market is controlled by **firms** (businesses) and **households** (consumers). The relationship between the two is mutually beneficial. Firms supply what consumers need and want in order to make a profit. Thus, there are enough consumer goods at prices consumers are willing to pay. Free market economies are centered around these voluntary exchanges.

MARKET "A medium that allows buyers and sellers of a specific good or service to interact in order to facilitate an exchange." (Investopedia)

Consumers decide what will be made (**Consumer Sovereignty**).

SPECIALIZATION The development of skills in a specific kind of work; division of labor. Specialization enables resources to be used efficiently.

INVISIBLE HAND The **self-regulating** nature of the market. Since everybody has their own **self-interest** at heart, there is an **incentive** to compete for customers with high-quality products at affordable prices.

CONSUMER SOVEREIGNTY The wants and needs of the consumer control production.

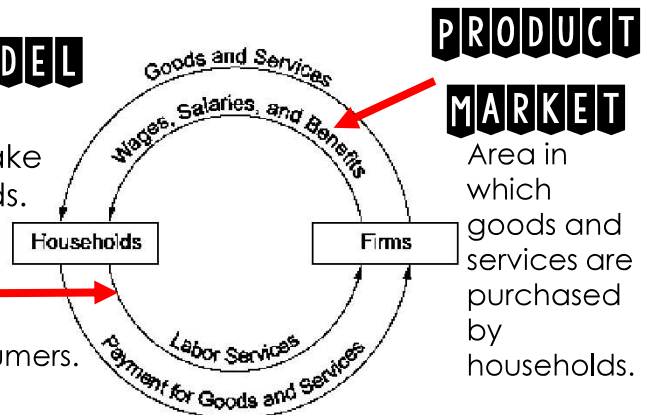
Firms decide based on efficiency.

CIRCULAR FLOW MODEL

The circular flow model demonstrates the give and take between firms and households.

FACTOR MARKET

Area in which firms purchase the factors of production from consumers.



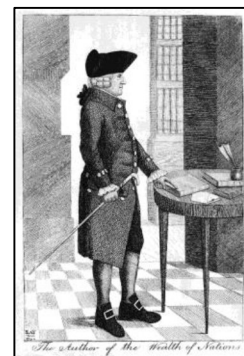
PRODUCT MARKET Area in which goods and services are purchased by households.

The Invisible Hand decides who will consume goods and services.

EXAMPLE

Singapore

- Singapore has an 88.8% free economy with no tariffs
- Low unemployment
- Steady (but slowing) economic growth
- GDP per capita, 2017= \$90,500

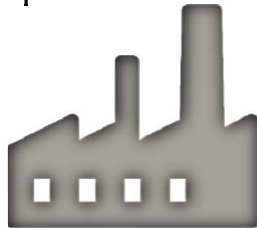


Adam Smith, author of *The Wealth of Nations*

Mixed Market

The Key Economic Questions:

1. What goods and services should be produced?



The government or consumers decide, depending on the situation.

CONTINUUM

Most economies exist on a continuum between command economies and free market. They are more one or the other like Singapore or North Korea, or somewhere in the middle, like Japan.

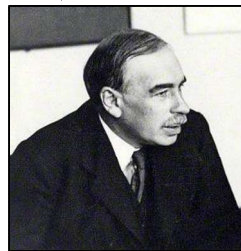
ECONOMIC FREEDOM

"The fundamental right of every human to control his or her own labor and property" (Index of Economic Freedom).

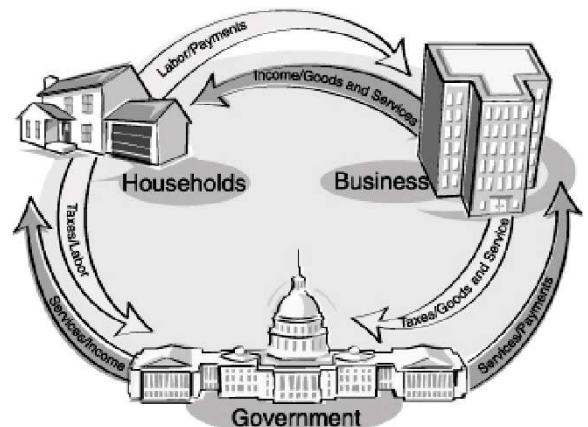
2. How should these goods and services be produced?



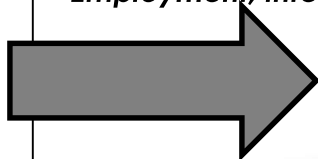
The government or firms decide, depending on the situation.



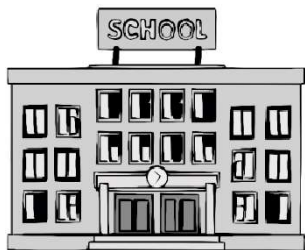
John Maynard Keynes, author of *The General Theory of Employment, Interest and Money*



3. Who consumes these goods and services?



The government or the Invisible Hand decides, depending on the situation.



EXAMPLE

Japan

- Focus on manufacturing and distribution of goods with less than 1% military spending.
- Japan has endured four recessions since 2008, but steady growth from WWII until the 1990s.
- GDP per capita, 2017= \$42,700

