



Economic Systems

Business Management



Economic Systems

OBJECTIVE

We will compare economic systems, free markets, and economic-political systems.

ESSENTIAL QUESTIONS

- Describe the similarities and difference between major economic systems.
- Explain the societal impacts of each system.



Economic Systems

Four Basic Types



Economic System

- ▶ An organized way in which a state or nation allocates its resources and apportions goods and services in the national community
- ▶ Remember – economics involves making decisions about resources!

The Purpose of Economic Systems

- ▶ **Scarcity** is the fundamental challenge that confronts all individuals and nations.
- ▶ Not every nation addresses the challenge the same way.
- ▶ Economists generally recognize four basic economic systems.

Societal Impacts

- ▶ How resources are allocated
- ▶ How much government regulates ownership, taxation, and allocation of goods & services
- ▶ How marketing decisions are made

Explain the societal impacts of each system.

Types of Economic Systems

- 1) Traditional Economy
- 2) Command Economy
- 3) Market Economy
- 4) Mixed Economy

Describe the similarities & differences between major economic systems.

Traditional Economy

- Shaped by tradition
- Tend to follow long-established patterns
- Standards of living are static



Describe the similarities & differences between major economic systems.

Traditional Economy

- ▶ You know what you're supposed to do, who you trade with, and what to expect from others.
- ▶ Community interests take precedence over the individual.
- ▶ Some private property is respected.

Describe the similarities & differences between major economic systems.

Command Economy

- ▶ Also known as a planned economy
- ▶ Government controls economy & decides how to use and distribute resources
- ▶ Government regulates prices and wages



Describe the similarities & differences between major economic systems.

Command Economy

- ▶ People (in the form of the state) own the means of production
- ▶ State decides what will be produced according to a plan based upon the calculated needs of the people
- ▶ State plays a role in determining who gets how much of what

Describe the similarities & differences between major economic systems.

Market Economy

- ▶ Consumers & businesses decide what to produce and purchase
- ▶ Decisions are made by “voting with dollars”
- ▶ Production based solely on demand in the marketplace



Describe the similarities & differences between major economic systems.

Market Economy

- ▶ Based entirely on the interaction of buyers & sellers in the marketplace
- ▶ Individuals choose how to invest personal resources – what training to pursue, jobs to take, goods & services to produce
- ▶ Individuals decide what to consume based on wants & needs

Describe the similarities & differences between major economic systems.

Mixed Economy

- ▶ Combines elements of market & command economy
- ▶ Economic decisions made in the market
- ▶ Government plays a role in allocating & distributing resources (taxes)



Describe the similarities & differences between major economic systems.

Mixed Economy

- ▶ Many economic decisions are made by individuals in the market.
- ▶ In general, market forces prevail.
- ▶ Government plays a role in the allocation and distribution of resources.

Describe the similarities & differences between major economic systems.

Types of Economic Systems

- 1) Traditional Economy
- 2) Command Economy
- 3) Market Economy
- 4) Mixed Economy

THEORY

Describe the similarities & differences between major economic systems.



Economic-Political Systems

OBJECTIVE

We will compare economic systems, free markets, and economic-political systems.

ESSENTIAL QUESTIONS

- Describe the three major economic-political systems.
- Identify examples of countries that operate under each system.

Capitalism

- ▶ Most means of production are privately owned & operated
- ▶ Production, distribution, and pricing decisions are market-driven
- ▶ Goal: profit



Describe the three major economic-political systems.

Capitalism

- ▶ Characterized by free competition and supply & demand
- ▶ Role of the government is to support the marketplace by:
 - regulating some marketplace activity
 - providing some social programs to support the people

Describe the three major economic-political systems.

Societal Impacts

- ▶ How resources are allocated
- ▶ How much government regulates ownership, taxation, and allocation of goods & services
- ▶ How marketing decisions are made

Explain the societal impacts of each system.

Socialism

- ▶ Most means of production are state owned & operated
- ▶ Goal: social equality that narrows the gap between rich & poor

Socialism:
the radical
idea of
sharing

Describe the three major economic-political systems.

Socialism

- ▶ Major means of production (resources) are in the hands of the people, usually through the government
- ▶ Wealth & income should be shared more equally, which typically results in extensive social programs supporting the people.

Describe the three major economic-political systems.

Societal Impacts

- ▶ How resources are allocated
- ▶ How much government regulates ownership, taxation, and allocation of goods & services
- ▶ How marketing decisions are made

Explain the societal impacts of each system.

Communism

- ▶ Community ownership of property
- ▶ Goal: economic equality



Describe the three major economic-political systems.

Communism

- ▶ Characterized by (almost) complete government ownership
- ▶ Private ownership encourages greed and competition.
- ▶ Role of government is to exercise control in the name of the people

Describe the three major economic-political systems.

Societal Impacts

- ▶ How resources are allocated
- ▶ How much government regulates ownership, taxation, and allocation of goods & services
- ▶ How marketing decisions are made

Explain the societal impacts of each system.

Closing Task

- 1) List the four major economic systems recognized by economists.
- 2) List the three economic-political systems, and identify the primary goal of each.
- 3) Explain the distinction between economic systems and economic-political systems.