Definition:

an organized way a society provides for the WANTS and NEEDS of its people.

1. Traditional
2. Command
3. Market
4. ** Mixed**
The Outline for Your Notes...

**Type of Economic System**: Definition

How Each Essential Question is Answered

- What
- How
- For Whom

**Advantages** of Specific Economic System

**Disadvantages** of Specific Economic System

Examples
TRADITIONAL

Definition:

Economic Decisions are based upon RITUAL, HABIT or CUSTOM handed down from generation to generation.
WHAT

- **TRADITION** decides what is produced
- The economy produces the *bare essentials* for the society *without a surplus*
  - labor intensive subsistence level

HOW

- Just as previous generations have done: **TRADITION**

FOR WHOM

- Determined by **Customs** and **Traditions**
Advantages

+ Everyone knows their roles
+ Little uncertainty over what to produce or how to produce it

Disadvantages

- Progress is discouraged
- Lack of Progress = a lower standard of Living
- Methods of production are often inefficient
- Strict Roles = punishments for differentiation
Examples...

- African Mbuti
- Australian Aborigines
- Alaskan Inuits (Eskimos)

Visual: not to be morbid but...

TRADITIONS are past down from past generations
Economy

Definition:

Economic system defined by a **CENTRAL AUTHORITY** making most if not all economic decisions.

Public ownership of resources and a **centralized planning** source.
It’s an economy of KINGS (and QUEENS)

KING is the Cabinet therefore decides ALL 3 Essential Economic Questions

ALL decided by Government Planners/ a Central Authority

? WHAT

? HOW

? FOR WHOM
### Advantages

+ Resources can be redirected quickly
  
  EX: Soviet Union
  
  Rural Agriculture to Industrial Nation

+ Health and Public Services are available to everyone at little to no cost
  
  (Quality Varies Widely)

### Disadvantages

*** People have little, if any influence. ***

- Progress is not really encouraged

- No rewards for Individual Initiative

- Consumer CHOICE is LIMITED

- Lower standard of living
  
  “Sacrifice for the good of the State!”

- Size discourages small adjustments
Examples... Very Few in the World Today:

- North Korea
- Cuba
- Former Soviet Union*
- Peoples’ Republic of China*  

*Until Recently
“Capitalist” or “Free Enterprise” Economy

Definition:

An economy in which PEOPLE and FIRMS act in their OWN BEST INTEREST.

Motivates behavior

Market allows BUYERS and SELLERS to come together in order to EXCHANGE GOODS and SERVICES
WHAT
Decided by whatever is **SCARCE** in order to **INCREASE PRICES** which increases **PROFIT**
* Producers make what they think will sell

HOW
Products are produced in the **MOST EFFICEINT** and **LEAST COSTLY** way to ensure a **HIGHER PROFIT**
Goal= Efficiency

FOR WHOM
Products are produced for those with the ability to **PAY**
The MUST HAVEs of a Market Economy

1. Markets = Reasonably COMPETITIVE
2. Resources must be reasonably free to MOVE from one activity to another
3. Consumers need access to INFORMATION in order to Compare or weigh Alternatives

Without these three basic components, the Market Economy can and will FAIL.
Advantages

+ Change is neither prohibited nor discouraged
+ High Degree of Individual Freedom
  small degree of Government interference for exceptions
+ Everyone has a voice in the way the economy runs
  (decision making is decentralized)
+ Variety of goods and services with CHOICE

Disadvantages

- Does not provide enough services that are valued highly
  (private producers want to SELL)
  Result: Gov. must interfere to provide necessary services paid for with tax $
- Does not provide basic needs for everyone in the society
- High degree of uncertainty regarding jobs
Examples...

many of the largest & most prosperous countries:

- United States
- Canada
- Japan
- South Korea
- Singapore
- Germany
- France
- Great Britain
“Transitional Economy”

Definition:
An economy in which PEOPLE carry on their economic affairs FREELY but are subject to SOME GOVERNMENT INTERVENTION or REGULATION

- Private ownership of some resources and public ownership of others.
- Markets either regulate themselves (FREE) or are regulated by the Government.

**Government** = the referee or the watchdog of the Economy
Decisions are made by Government Planning agencies, the Market as well as Private Businesses depending upon the issues and/or circumstances.
Mixed economies provide an Extensive Social Welfare Program. High costs result in Taxes.
Mixed Economies are a mixture of 2 pure Economic Systems ...

Examples: mostly every Economy

Strong Presence defines a Mixed Economy.
In Summation….

An Economic Decision Making Continuum

Centralized Decision Making

Government Regulated and Free Markets

Individual Decision Making

Command System

Mixed System

Market System
And...

A Government Regulation of the Market Continuum

Emphasis:

Disadvantages of a Free Market

Regulation

Mixed/Modified Free Economy

Deregulation

Advantages of a Free Market

Complete Regulation

No Regulation

Complete Regulation

Mixed/Modified Free Economy

No Regulation