

ECONOMIC SYSTEMS

The type of economy is determined by the extent of government involvement in economic decision-making.

Command Economies

1. In a pure command economic system the individual has little, if any, influence over how the economy functions.
2. The major economic decisions are made by the central government.
3. The government tells producers what to do.
4. This system is also called a controlled economy.
Example: communism
5. Most productive resources are owned by the government. People have less economic freedom. People have fewer choices.
6. The government decides what to produce, how goods will be produced, & decides for whom to produce.
7. The 2 best current examples of command economies are Cuba & North Korea
8. Russia and China are 2 examples of command economies that are trying to convert to a market economy.

Traditional Economies

1. Economic decisions are based on custom and historical precedent.
2. People often perform the same type of work as their parents and grandparents, regardless of ability or potential.

Market Economies

1. Decisions are made based on the interaction of supply and demand. Capitalism is another name for this system.
2. Private citizens own the factors of production.
3. This system offers a high degree of individual freedom.
4. Businesses make their own decisions regarding what to produce, how to produce it and for whom to produce it. The business owner desires to make a profit.
5. Supply and demand interact to set price.
6. Decisions are made by all of the people in the economy and not just by a few.
7. There are no pure market economies in the world today.

Mixed Economies

1. A mixed economy combines the basic elements of a pure market economy and a command economy.
2. Most countries of the world have a mixed economy in which private ownership of property and individual decision making are combined with government intervention and regulations.
3. The United States has a mixed economy.
4. Prices are determined by supply and demand.
5. Mixed economies also encourage competition and private property.
6. Federal, state and local governments make laws regulating areas of business.