Economic Systems
Traditional, Command, & Market

**Market Economy**
- Economic decisions are made based on the changes in prices that occur as buyers & sellers interact in the market place.
- Free enterprise helps make these decisions.
- The government has no control over the economy; private citizens answer all economic questions.

**The Economic Continuum**
- Command
- Germany
- Market
- US
- Australia
Scarcity is the Root of Economics

• There is not a single country in the world that has an abundance of all the resources that its people need/want.
  • **Scarcity** = the limited supply of something

• Because of this, countries must make a plan of how to use these limited resources.

• This “plan” is called an...

**Economic System!**
When developing the economic plan, each country must ask three basic economic questions:

1. What goods/services will be produced?
2. How will goods/services be produced?
3. Who will consume the goods/services?

The way a country answers these questions determines what kind of economic system it will have:

- Traditional
- Command
- Market
Traditional Economy

- All economic decisions are based on customs, traditions, & beliefs of the past.
- People will make what they always made & do the same things their parents did.
- The exchange of goods is done through bartering.
  - Bartering = trading without using money
- Some Examples: villages in Africa & South America, the Inuit in Canada, Aborigines in Australia
Traditional Economy

Let’s see how a traditional economy fits in with the 3 economic questions...

1. What goods/services will be produced?
   - People follow tradition & make what their ancestors made.

2. How will goods/services be produced?
   - People produce goods the same way that their ancestors did.

3. Who will consume the goods/services?
   - People in the village who need them.
Command Economy

• **All** economic decisions are made by the Government.

• The government owns most of the property, sets the prices of goods, determines the wages of workers, plans what will be made... everything.

• This system has not been very successful. More and more countries are abandoning it.
Command Economy

• This system is very harsh to live under; because of this, there are no PURE command countries in the world today.

• Some countries are close: Cuba, former Soviet Union, North Korea, former East Germany, etc.

• All of these countries have the same type of government: Communist! The government is in control of everything.
Command Economy

Let’s see how a command economy fits in with the 3 economic questions…

1. What goods/services will be produced?
   • Government decides what will be produced.

2. How will goods/services be produced?
   • Government decides how to make them.

3. Who will consume the goods/services?
   • Whoever the government decides to give them to.
Market Economy

• Economic decisions are made based on the changes in prices that occur as buyers & sellers interact in the market place.

• Free enterprise helps make these decisions.
  • Free Enterprise = competition between companies (shifts prices of goods/services)

• The government has no control over the economy; private citizens answer all economic questions.
Let’s see how a market economy fits in with the 3 economic questions…

1. What goods/services will be produced?
   • Businesses (owned by private citizens) based decisions on supply & demand and free enterprise. (AKA $!)

2. How will goods/services be produced?
   • Businesses (owned by private citizens)

3. Who will consume the goods/services?
   • Consumers
Market Economy

- In a truly free market economy, the government would not be involved at all. Scary…
  - There would be no laws to make sure goods/services were safe. *Food! Medicine!*
  - There would be no laws to protect workers from unfair bosses.

- Because of this, there are no PURE market economies, but some countries are closer than others.
  - Some Examples: US, UK, Australia, etc.
Hmmmm . . .

• Since there are no countries that are purely command or purely market, what does that make them? Comket? Markmand?

• Ha! Most democratic countries have some characteristics of both systems, so we keep it simple and call them:

Mixed!

• Of course, most countries’ economies are closer to one type of system than another…
The Economic Continuum

Command

Cuba

Russia

Germany

Market

UK US

Australia

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