

Forms of Economic Systems – Teacher Reference Sheet

Economic systems key points:

- Economic systems evolved in response to the economizing problem faced by all societies
- An economic system is a set of institutional arrangements and a mechanism to coordinate the institutions to respond to the economizing problem
- The economizing problem is:
 - Society has unlimited economic wants of its citizens and institutions
 - Economic resources are limited or scarce
- Economic systems differ in how they answer the 3 questions:
 - What to produce?
 - How to produce?
 - For whom to produce?
- Economic systems differ as to
 - Who owns the factors of production
 - The method used to coordinate and direct economic activity

Types of Economic Systems	Definition and Characteristics	Historical or Contemporary Examples
Traditional	<ul style="list-style-type: none"> • Tradition or customs answer what, how and for whom to produce • Tradition decides how property is held and who may own property • Tradition decides who is permitted to hold certain positions or jobs • Not common today, found in remote, rural areas 	<p>India (pre-1900 and its system of caste)</p> <p>Europe Middle Ages (feudal system)</p> <p>United States (pre-1900 in limitation on women, African-American and other groups ability to own property)</p>

Economic Systems – Teacher Reference Sheet (continued)

Types of Economic Systems	Definition and Characteristics	Historical or Contemporary Examples
<p>Command (also known as <i>socialism</i>)</p>	<ul style="list-style-type: none"> • Government owns most of the factors of production • Economic decisions made by a governmental planning agency • Government owns most businesses • Government answers the questions of what is produced, how it is produced, and who gets it? • Government plans output (amounts of capital vs. consumer goods and specific goods as well) • Government system may be authoritarian or democratic • Theoretically seeks a more equitable distribution of property • Pure command would have all central planning and government ownership • In practice all command economies have permitted or tolerated some private ownership 	<p>Current examples: North Korea and Cuba</p> <p>Historical examples: Soviet Union</p> <p>People’s Republic of China</p>
<p>Market (also known as or commonly referred to as <i>capitalism</i>)</p>	<ul style="list-style-type: none"> • individuals, households & firms act in his/her own self-interest • private ownership of capital, factors of production • markets (places where buyers and sellers come together) answer the questions of how and what is produced and for whom • results in competition • economic decision making is widely dispersed • pure capitalism: government role limited to protecting private property rights and providing environment for market functioning • in practice, all market economies have significant governmental involvement in the economy 	<p>No scholarly record of historical or current models of pure capitalism in a nation state but the closest examples included:</p> <ul style="list-style-type: none"> ▪ Mercantilism in Europe during the 16th through 17th century ▪ Industrial Age in the United States and England in the mid-19th century
<p>Mixed</p>	<ul style="list-style-type: none"> • arguably all current systems have a combination of all 3 economic systems to varying degrees • blend of voluntary or market exchange, governmental control and regulation and custom or tradition 	<p>United States, Japan</p> <p>European nations</p> <p>China and Russia</p> <p>(21st century)</p> <p>Majority of nations 21st century</p>

Problems with Pure Market Economies and Pure Centrally Planned Economies