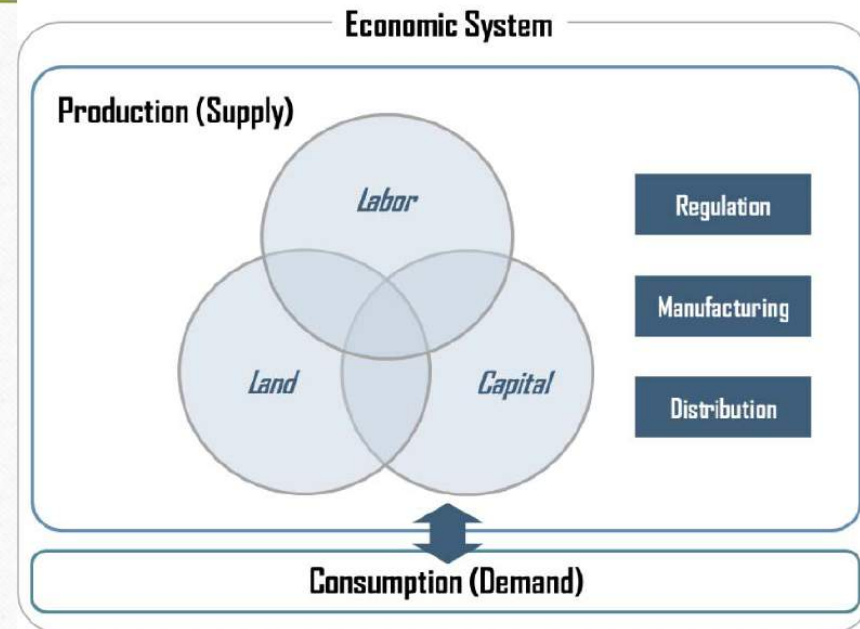


What is an economic system?

- A country's economy or economic system is that society's way of coordinating the production and consumption of goods and services.



What are the different goals of an economic system?

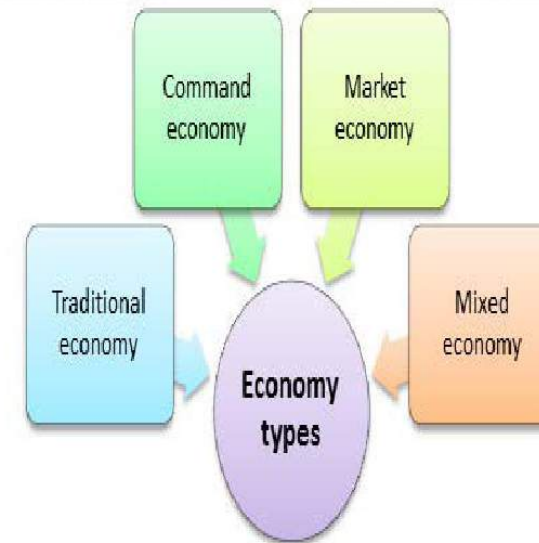
The way a society answers these questions will depend on what that society's values are. Here are some possibilities.



- Economic Freedom
- Economic Efficiency
- Economic Equity (or Fairness)
- Economic Growth
- Economic Security
- Economic Stability
- Environmental Sustainability

There are four basic types of economic system

- A traditional economy
- A market economy
- A command (or planned) economy
- A mixed (or hybrid) economy



Traditional economy

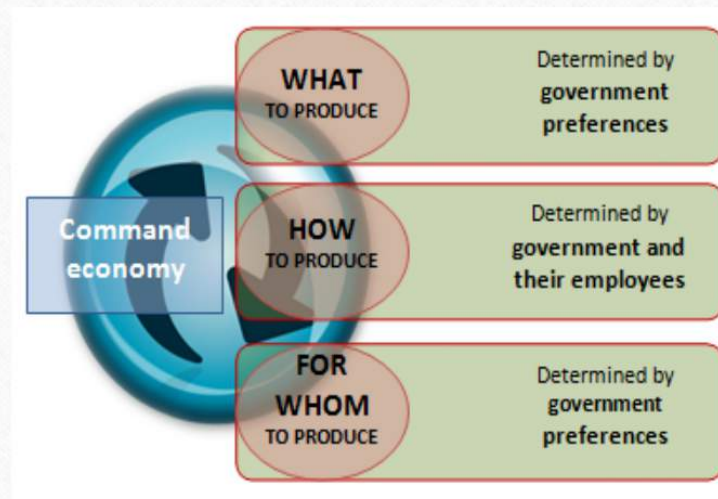
- Custom and tradition dictate what to produce, how to produce it, and for whom
- Hunting, fishing and farming are the main economic activities in such an economy
- Although traditional economies are rare in the 21st century, some still exist (e.g., in Papua New Guinea); also, some peoples like the Amish or the Inuit organize their economic lives that way



What are the advantages and disadvantages of a traditional economy?

-
- Traditional economies often provide economic security
 - Traditional economies also tend to be sustainable because they grow slowly.
 - They also tend to emphasize a relatively equal distribution of goods and services.
 - In terms of disadvantages, traditional economies rarely achieve the goals of economic freedom, economic growth, and a high standard of living
 - They also tend to be resistant to change, technological or otherwise.

Command economy



Command economy

- In this type of economic system, the government decides how much workers should produce
- Rulers and centralized governments impose their economic choices on society in the form of production quotas, etc.
- Governmental decision-makers and planners perform the functions of a market
- Some empires in the distant past had command economies. One example is Ancient Egypt.
- A more recent example of a command economy is the former Soviet Union.

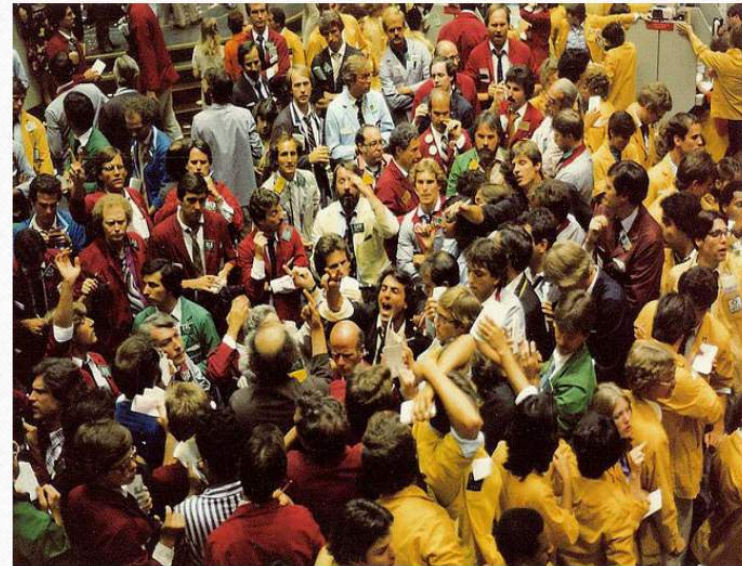


What are the advantages and disadvantages of a command economy?

- Command economies can provide economic security
- Command economies also have the ability to adjust rapidly to changing circumstances. They have the ability to shift resources away from one industry to another if needed.
- On the other hand, command economies have not in practice tended to work out very well. The Soviet Union's economy, for example, failed.
- Command economies also limit economic freedom and provide little incentive to people to work hard.
- This kind of economy also fares poorly in terms of economic efficiency. As was the case with the Soviet Union, central planners erred greatly in terms of what society needed. There were many surpluses and (esp.) shortages

Market economy

- In this economic system, individuals decide what to produce and what to buy
- Buyers and sellers exchange goods and services on their own
- An “invisible hand” seems to coordinate economic activity (Adam Smith)
- The government plays little if any role in the marketplace
- Property rights are very important



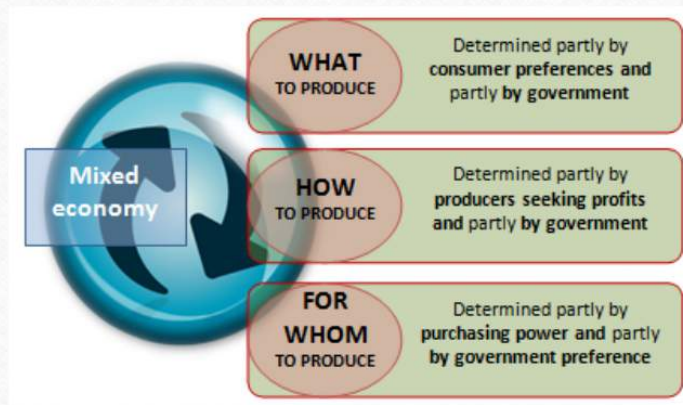
What are the advantages and disadvantages of a market economy?

- This kind of economy gives people strong financial incentives for producing goods that other people want. They tend to be more efficient than traditional or command economies and give people more economic freedom.
- They also have historically produced more rapid economic growth than other kinds of economies.
- In terms of disadvantages, market economies do not do very well in terms of economic security.
- Resource conservation is another challenge for market economies.

What are its advantages and disadvantages?

- Mixed economies tend to be more equitable than market economies. They also have a better track record than market economies in terms of economic security and sustainability.
- However, mixed economies can differ greatly from each other. For example, the government's role in the economy may be fairly limited in some economies whereas in others the government may be very involved.

Mixed economy



- Typically involves aspects of a market economy (competition) and government involvement (such as environmental regulations and the social safety net)