

ESSENTIAL QUESTION

- EQ: How are Free Market Capitalist economies and Command, Communist economies alike, and how are they different?

Economic Systems

- In this lesson, students will examine the four economic systems.
- Students will be able to define the following terms:
 - An Economic System
 - Traditional Economy
 - Free Market Economy
- Centrally Planned Economy
 - Mixed Economy



What goods and services will a country produce?

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An Economic System

- An economic system is a method used by a society to produce and distribute goods and services.
- There are three key questions addressed by every economic system:
 - What goods and services will be produced?
 - How will these goods and services be produced?
 - Who will consume these goods and services?



Who will consume these goods?
That is a key economic question.

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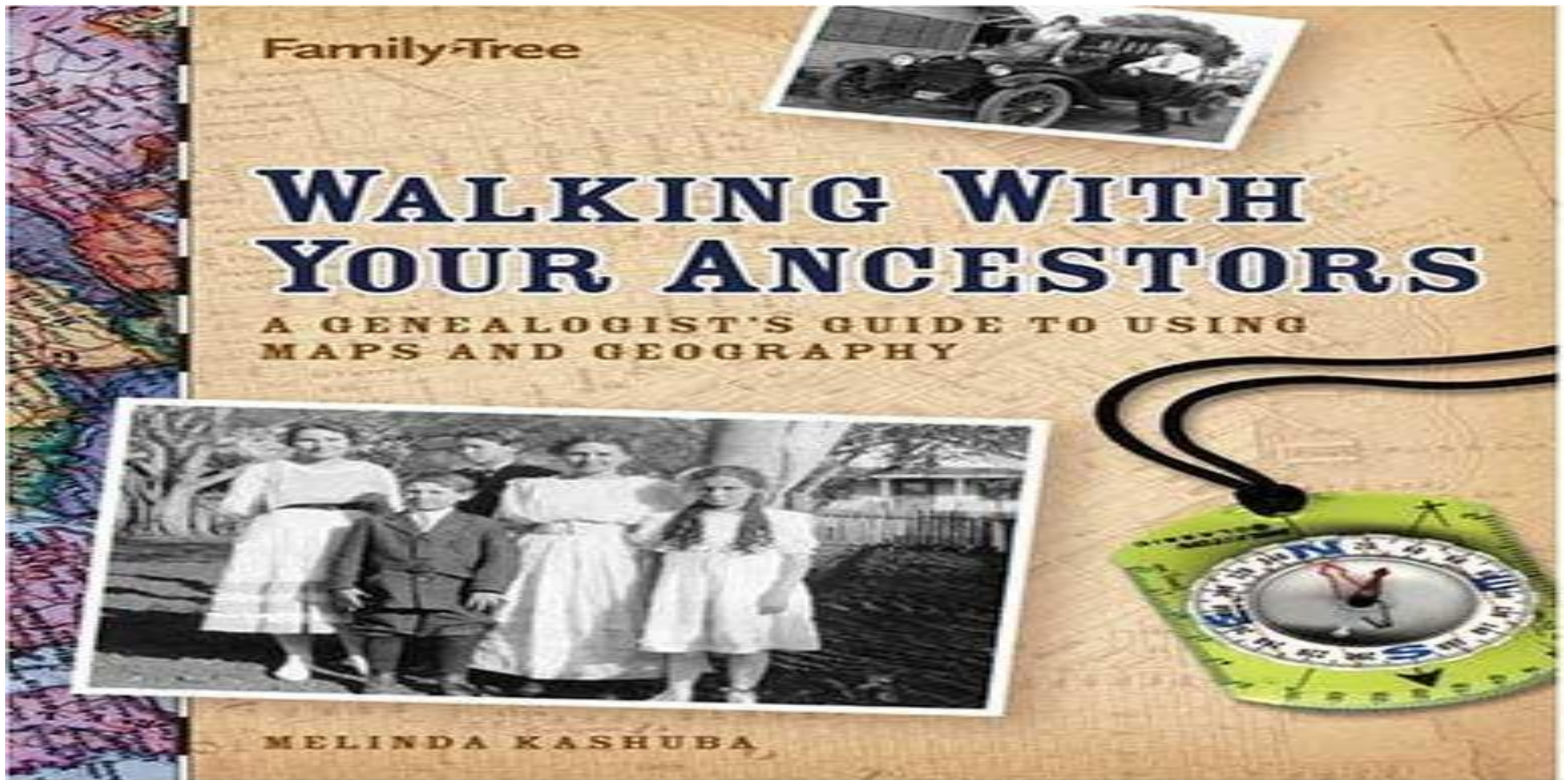


Nations, like people, answer the key economic questions differently.

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A Traditional Economy

- In a traditional economy, people live and work as their ancestors lived and worked.
- In a traditional economy, we
 - produce what our ancestors produced.
 - produce it the way our ancestors did.
 - distribute it the way our ancestors did.



It's all about the ancestors.
Traditional economies do not
encourage change.

A Free Market Economy

- In a free market economy, people are free to buy and sell whatever their money allows.
- The government does not interfere in the business of business.
- The individual has complete economic freedom.



In a free market, individuals are free to buy and sell.

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A Centrally Planned Economy

- In a centrally planned economy, the government makes all economic decisions.
- The government answers the three key economic questions.
- Karl Marx advocated a centrally planned economy.

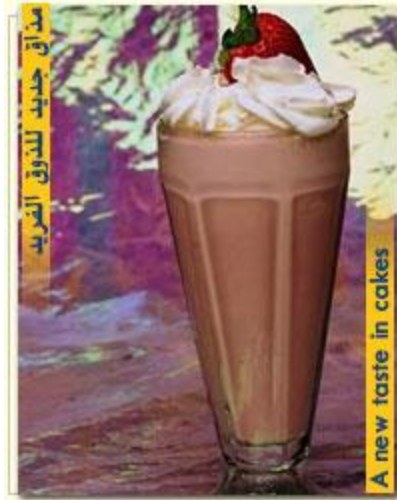


Communists advocate centrally planned economies.

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A Mixed Economy

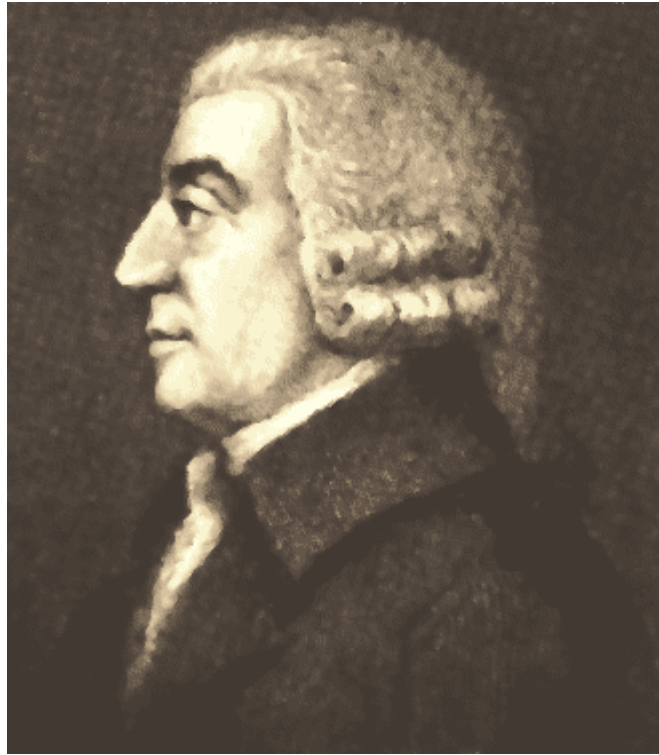
- Modern nations have mixed economies.
- A mixed economy combines elements of the other three economic systems.
- However, it is important to remember that nations mix their economic systems differently.



Just as every person mixes a milkshake differently, so, too, do **nations mix their economies differently.**

Questions for Reflection:

- Define an economic system.
- What are the three key economic questions?
- Describe life in a traditional economy.
- Describe life in a free market economy.
- How does a centrally planned economy differ from a free market economy?
- Why do modern nations prefer mixed economies?



Adam Smith was the first economist.
In his book, **The Wealth Nations** (1776),
Adam Smith explained how free markets
functioned.

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Markets are places where people can exchange the things they have for the things they want.

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The Free Market

- In a free market economy, people are free to buy and sell whatever they want.
- Obviously, **we do not live in a completely free market economy.**
- There are **some restrictions on what we can buy and sell.**



In the United States today, there are **some products that we cannot legally buy. We can buy a rifle but not this gun.**

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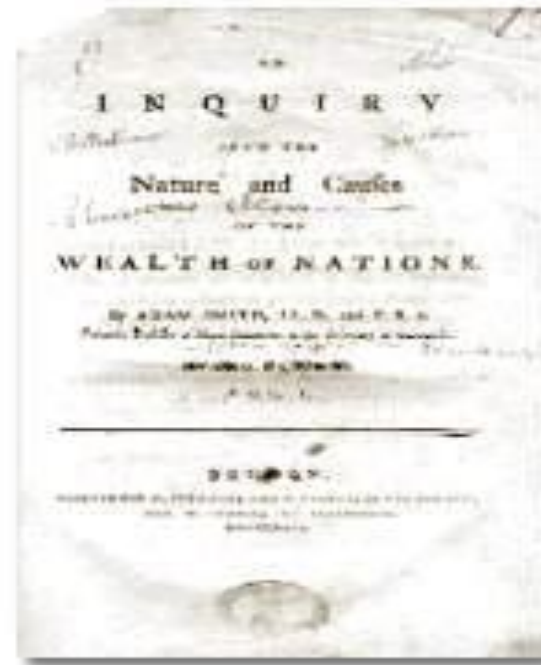
Laissez-faire

- **Laissez-faire** is the doctrine that states that the government should not intervene in the marketplace.
- It means “let them do (as they please)”.
- In a free market, the government does not regulate the economy.



Adam Smith believed that an Invisible Hand existed or that the market would always fix itself.

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The Invisible Hand is the idea that the economy fixes itself. **If there is demand for a good that currently does not exist in the market, some enterprising entrepreneur will eventually produce it.**

Adam Smith

- Adam Smith was the first person to explain how the free market functioned.
- He did not invent the free market rather he explained how it functioned.
- His book, The Wealth of Nations, is still considered a classic today.



Competition and self-interest allow markets to function effectively.

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Competition and Self-Interest

- Competition is the struggle among producers for the dollars of consumers.
- Self-interest is acting on behalf of one's personal gain.
- Competition and self-interest make markets work.



Competition leads to lower prices and better quality. When consumers have choices, producers must offer worthwhile products.



Every person has his or her best interest in mind. This photograph is an example. The tutor is interested in earning money and the student is interested in learning.

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A Centrally Planned Economy

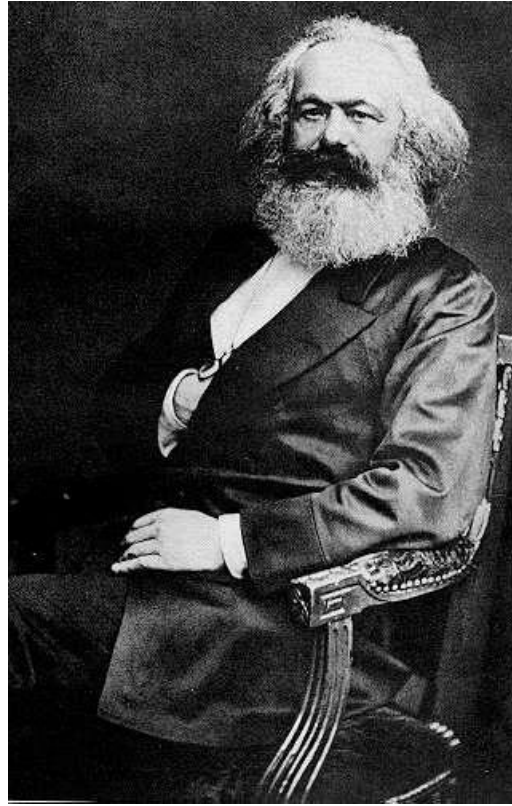
In this lesson, students will identify characteristics of a centrally planned economy.

Students will be able to identify and/of define the following terms:

Centrally Planned Economy

Communism

Problems of a Centrally Planned Economy



Karl Marx advocated a centrally planned economy in his book, **The Communist Manifesto** (1848).

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In the early days of the Industrial Revolution, workers were exploited or mistreated. Children even worked in factories.

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Sure, a few industrialists and capitalists
Became very wealthy but...

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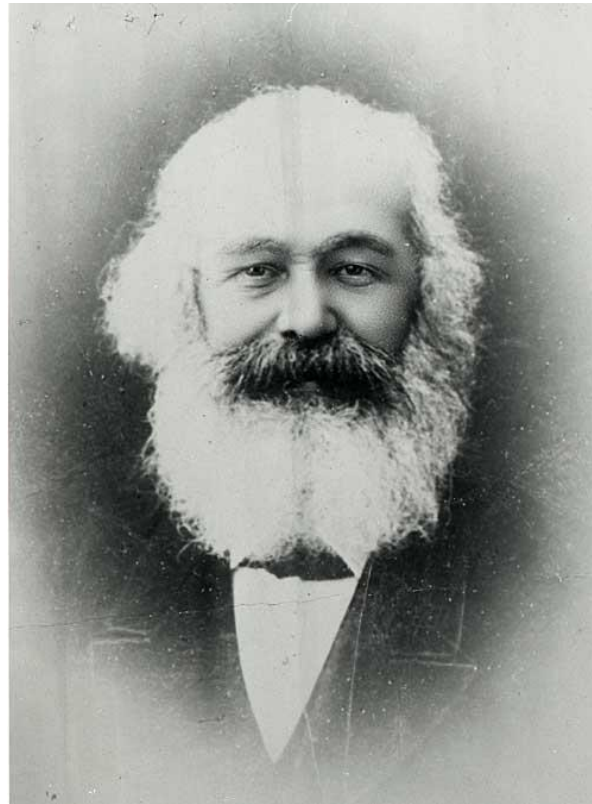


Most people worked long hours for low wages in unsafe working conditions.



Karl Marx encouraged workers to unite and violently overthrow the Capitalist class in order to create a more just society.

“Workers of the world unite;
you have nothing to lose but
your chains.”



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Marxism

Marxism is frequently referred to as communism.

Characteristics of a Marxist Society:

- Dictatorship
- Government ownership of the Factors of Production
 - Economic Equality



It sounds like paradise: A society where there is no poverty, no want but...

Problems of a Centrally Planned Economy

Many problems exist in centrally planned economies.

The Problems of a Centrally Planned Economy:

- Workers lack incentive because all workers are rewarded equally.
- Productivity and efficiency decline.
 - Innovation is not rewarded.
- Individual freedoms are sacrificed.

Think about it!

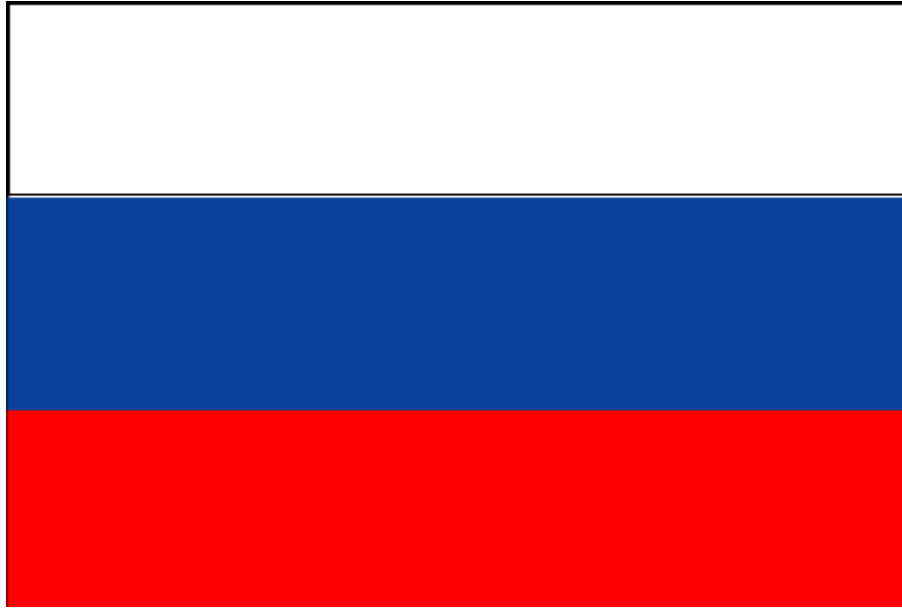
Would you work hard if you were rewarded
The same as the lazy worker beside you?



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Eventually, the Soviet Union collapsed and the formerly Communist republics began to transition to largely free market economies.



Transition has been difficult for **Russia**.
A **new economic perspective** must be
created and previously **Government-**
owned factories must be **privatized**.

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Questions for Reflection:

- How does a centrally planned economy differ from a free market economy?
- Who was Karl Marx and what did he advocate?
- Describe a Communist society.
- What problems are created by centrally planned economies?
- Define transition.