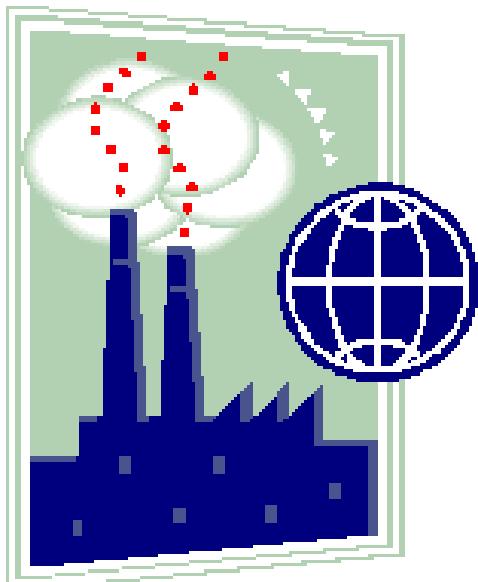


*Unit 1*

# ECONOMIC BASICS AND SYSTEMS



*Day 3 — Economic  
Systems*



# Objectives

- ▶ Define what makes an **Economic System** and the three parts to it
- ▶ Understand the four primary market systems in the world
- ▶ Identify advantages and disadvantages to each

## ▶ *Terms:*

- ▶ Economic System
- ▶ Traditional Economy
- ▶ Market Economy
- ▶ Command Economy
- ▶ Mixed Economy
- ▶ Barter
- ▶ Financial Institution

*I should like to suggest to you  
that the cause of all economic troubles is  
that we have an economic system which  
tries to maintain an equality of value  
between two things, which it would be  
better to recognize from the beginning as  
of unequal value.*

*- Paul Dirac*

# **What is “Scarcity”?**

## **What does it force us to do?**

# Choice - *Not JUST for people anymore...*

- ▶ **Governments and Societies also have to make these choices**
  - ▶ *In other words... choice isn't just about what WE "want" and "need" but also what our whole society wants and needs*
  - ▶ Let's go back to our island...
- ▶ **What is the whole basis of our "economy"?**
  - ▶ Is it food? water? shelter? coconuts? fish? velociraptors?
- ▶ **If we let every individual "choose" what they want to produce or consume, could there be any problems?**
  - ▶ We will see that groups larger than our island have to make these kinds of choices, AND decide how they might enforce them

# Economic System

► A system of production, exchange of goods and services, and allocation of resources

► **PRODUCTION**

► **EXCHANGE**

► **ALLOCATION**



# Economic System

## ► PRODUCTION

- *Who gets to produce?*
- *What can they produce?*
- *Where or When can they produce?*
- *How much can they produce?*
- *What about those who won't / don't produce?*



# Economic System



## ► EXCHANGE

- *What can be exchanged?*
- *How much is something “worth”?*
- *Where and when can things be exchanged?*
- *Any rules for exchanging?*
- *Can people choose not to exchange?*

# Economic System

## ► ALLOCATION

- *Since we have “scarcity” how do we manage our resources?*
- *First come first serve?*
- *Do we as a whole need to focus on certain things first?*



The answers to these questions will create three distinct methods of managing an economy, and four economic systems



GEORGE



ADOLF



# 4 Economic Systems

1. Traditional
2. Market
3. Command
4. Mixed

# TRADITIONAL ECONOMY

► Based on agriculture

► Barter economy

► Exchanging goods or services directly

► Traditional roles

► Little or no waste

► *Examples: Island nations, farming villages, Ancient civilizations*



# Market Economy

- ▶ Based upon Supply and Demand
- ▶ Focus on consumer goods - wants more than needs
- ▶ Little or no government control
- ▶ Financial Institution
  - ▶ A company that neither produces nor consumes goods and services, but deals with their distribution
- ▶ *Examples: A yard sale, Western Europe*



# COMMAND ECONOMY

- ▶ Controlled by strong central government
- ▶ Government allocates resources
- ▶ Focus on Industrial Goods
- ▶ Little unemployment

*Examples: China, Communism,  
Donaven Ellis*



# MIXED ECONOMY

- ▶ Mix of Command and Market economy
- ▶ Market forces control consumer goods
- ▶ Government directs industry and “needs”
- ▶ Tricky sometimes to balance
- ▶ *Examples: United States, most of Europe*



**Advantages of  
each?**

**Disadvantages?**

And now...

A video that tries  
to illustrate some  
of these things...



# Objectives

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