SS6E5 The student will analyze different economic systems.
a. Compare how traditional, command, and market, economies answer the economic questions of 1 - what to produce, 2-how to produce, and 3-for whom to produce.
b. Explain how most countries have a mixed economy located on a continuum between pure and market and pure command.
c. Compare the basic types of economic systems found in the United Kingdom, Germany, and Russia.
**Command Economy - Vietnam**
- Government has total control over resource allocation and all aspects of the economy
  - Government is able to hide/manipulate information from the public (e.g., Vietnam article)
- No private sectors, only public
- Reduce poverty (theoretical)
- Rules and regulations
  - Set prices
  - Little choice and variety

**Mixed Economy - France**
- Capitalist and socialist elements combined
  - Market forces and state determine resource allocation
  - France has a large private sector but the government makes most decisions about the economy (e.g., taxes – article)
- Prices determine who can purchase goods/services
- Authorities have power
- All have 3/4 factors of production: land, labor, capital but not all have enterprise
- Effective coordination within the economy, more overall efficiency
- Unemployment
- Market failure

**Transition Economy - Cuba**
- Command (communism) → economic liberalization through privatization, free trade, etc. → Mixed
- Car sales ban lift, allowing buy/sell of real estate (e.g., larger private sector - article)
Types of Economic Systems Worksheet

There are a few types of economic systems that exist in our world. But before we discuss them, we need to know what an economic system is. Basically, it is the process by which humans deal with scarcity (limited natural resources, time, money, water etc.). When confronted with this problem of scarcity, humans must address three important questions in order to ensure that scarce resources are used properly. The three basic economic questions are as follows.

3 Basic Economic Questions:
1. What goods and services should be produced?
2. How should the goods be produced?
3. Who should the goods be produced for?

4 Factors of Production:
1. Land - provides the natural resources.
2. Labor - provides the man power.
3. Capital - provides the equipment and tools.
4. Entrepreneur - the business person who provides the idea.

Directions: Using the questions above and notes below to complete the table and questions below. Explain how each economic system answers the 3 basic economic questions.

Traditional System:
A pure traditional economy answers the basic economic questions according to tradition. Things are done as they were in the past based on tradition, customs and beliefs (religious). The customs and habits of the past are used to decide what and how goods will be produced, distributed, and consumed. This means that in a traditional economy, things are done how they have always been done (based on tradition). In this system, members of the society know early in life what their role in the society will be. Since jobs are handed down from generation to generation (grandfather, to father, to son), there is very little change in the system over generations. In a traditional economy, people must fulfill their traditional role. If someone does not do his or her part, the system can easily break down. People in traditional economies usually are part of farming, hunting and gathering, or herding societies, just like their ancestors. There are no traditional economies in Europe. The traditional economies that exist today are in developing countries (poor countries).

Communist or Command System:
The individual has little influence over how the economic questions are answered in a pure command system. The government controls the factors of production and makes all the basic economic decisions. The government even decides the role everyone will play. It guides people into certain jobs.

In a command economy, the government determines which goods and services to produce, how much everything will be sold for, and how much people will get paid. Individuals and corporations do not own businesses or farms, instead businesses or farms are owned by the government. Workers are told that they have a certain amount of time to make a certain amount of goods. This is a quota. The government gives quotas to all workers, and when every worker meets every quota, then everyone in the country will have the goods and services they need whenever they need them. When workers do not meet their quotas, then shortages occur. A shortage is when there is not enough of something to satisfy the needs of a country.

The Soviet Union was an example of a command economy. After the Soviet Union collapsed, Russia adopted a mixed economy. However, the government still owns and
controls many large businesses and has a lot of laws in place to limit private ownership of businesses. Command economies are most common in countries with a communist government. Examples: North Korea, Cuba

**Market or Capitalist system:**
Capitalism is a pure market economy. In this system the government does not get involved. Individuals own the factors of production and they decide the answers of the basic economic questions. The market is the freely chosen activities between buyers and sellers of goods and services. Decisions are guided by changes in prices that happen between buyers and sellers in the marketplace. Other names for market systems are free enterprise, capitalism, and laissez-faire. In a market economy, individuals or corporations generally own businesses and farms. Each business or farm decides what it wants to produce. The law of supply and demand determines the price people pay for things. **Supply** is the amount of goods available and **demand** is how many consumers want the goods. Market economies are great for entrepreneurs because they get to have economic freedom.

Most of Europe has a somewhere between a market and mixed economy, including the United Kingdom. The market economy of the United Kingdom is considered one of the most “free” economies in Europe. That means that businesses can operate without too many rules from the government. The rules from the government are only there to protect the people, such as property rights rules. People are able to start a business whenever they want and are able to do it quickly. Market economies are most common in countries with a democratic government. Examples: the underground economy, 19th century Britain.

**Mixed Economic System:**
Many economist doubt that "pure" economic systems ever existed. A mixed economic system contains elements of the market and command systems, with elements of traditional as well. For example, there is some private ownership in the People's Republic of China. Some private ownership also existed in the former Soviet Union. Examples: United States, most other nations.

**Characteristics of the United States' Mixed Economic System:**
- Not all decisions are made by individuals reacting to the market.
- Federal, state, and local governments make laws to regulate some areas of business.
- Public and private sectors contribute to the economy in varying proportions. For example, federal defense spending can boost the economy; the Postal Service is a quasi-governmental corporation.
- Government steps in to handle inequities in the system. Many social/welfare programs were created during the 1930s (Great Depression).
- Traditional celebrations like Christmas affect portions of the economy.
- In addition to privately funded education, government funded public schools provide free education.
# Economic Systems Comparison Chart

Based on the reading above, explain who (or what) addresses the following questions below for each economic system.

<table>
<thead>
<tr>
<th>Economic System</th>
<th>Traditional Economy</th>
<th>Command Economy</th>
<th>Market Economy</th>
<th>Mixed Economy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Who/What decides the 3 basic economic questions?</td>
<td></td>
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<td></td>
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<tr>
<td>How much control does the government have over the economy in this system?</td>
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<tr>
<td>What is an example of a country with this economic system?</td>
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<tr>
<td>What type of government might countries with this economic system have?</td>
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<td>Draw a picture that represents this economic system.</td>
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</tbody>
</table>

**Define:**

- Supply -
- Demand -
- Quota -
- Shortage -

**Questions:**

1. What are the 3 basic economic questions

2. List and explain the 4 factors of production.
Use these country descriptions to complete the questions and the economic continuum on the following pages.

<table>
<thead>
<tr>
<th>United Kingdom</th>
<th>Germany</th>
</tr>
</thead>
<tbody>
<tr>
<td>In the United Kingdom citizens answer the basic economic questions. Citizens own the factors of production and prices of goods are set by supply and demand. Like the United States, the United Kingdom is largely a service-based economy but also has an extremely efficient agricultural sector. The private sector produces goods and services for domestic and international markets based on the market price system (supply and demand). Industries have much economic freedom in the UK. However, there have been recent moves for the government to partially control the banking industry and substantially regulate other industries.</td>
<td>In Germany citizens own the most of the factors of production and make most of the economic decisions. The economy is primarily export-based, focusing on manufacturing and commodities. German businesses are largely privately owned and independent. The government regulates the agriculture, energy, and communications industries and there are increasing amounts of government involvement in the financial (banking) sectors. Most prices are set by supply and demand, but a few are controlled by the government. There is also still an issue with updating the Eastern German economy to compete and operate on par with Western Germany. Germany survives largely based on their exports, which are determined by global markets (supply and demand). Western Germany still transfers billions of dollars to Eastern German states to help modernize and update factories and production lines.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Russia</th>
<th>Canada</th>
</tr>
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<tbody>
<tr>
<td>The Russian government is largely involved with many aspects of the economy and must approve any investment larger than 50 million rubles. The government makes large scale production decisions and controls a large part of the energy and shipping industry. Citizens control smaller industries and make the production decisions for small industries. The government regulates the prices of some products while other prices are set by supply and demand.</td>
<td>Canada is famous for its socialized medicine (free healthcare). The government provides free healthcare to all Canadian citizens. The government also highly regulates businesses that operate in the medical industry. Other Canadian industries are mostly privately owned and citizens make most of the economic decisions. Canada allows a tremendous amount of direct foreign investment by American companies. Many American companies have very large operations in Canada.</td>
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<table>
<thead>
<tr>
<th>Cuba</th>
<th>Brazil</th>
</tr>
</thead>
<tbody>
<tr>
<td>Most industries are controlled by the government and 75 – 93% of the labor force is employed by the government. The government decides what to produce and how much to produce. The government owns all the factors of production and decides prices for goods and services. Like many centrally planned economies, Cuba’s state-run entities are inefficient and do not provide all the goods and services desired by citizens. Because of these inefficiencies, Cuba has a vibrant informal (underground) economy that is estimated at about 40% of the total economy.</td>
<td>Since 1996, many Brazilian industries have become privatized (privately owned). There is competition, both foreign and domestic, in most major industries. The two largest banks in Brazil are government-owned. The ownership of the factors of production tends to be held by a privileged class of a few very wealthy people, with a large number in the population living in poverty.</td>
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</table>

<table>
<thead>
<tr>
<th>Australia</th>
<th>United States</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia's economy is dominated by its services sector, yet it is the agricultural and mining sectors that account for the bulk of Australia's exports. The government used to heavily control most of Australia's industries. However, since the 1980s, Australia has made a lot of changes in its economy. It has transformed itself from a highly protected and regulated market to an open, internationally competitive, export-oriented economy. The freedom to start, operate, and close a business is strongly protected under Australia's regulatory environment.</td>
<td>In the United States the citizens decide what to produce based on market forces (supply and demand). Citizens answer the basic economic questions and own the factors of production. Most businesses, farms, and factories are owned by citizens. The government only steps in to protect the environment and consumers from unscrupulous business practices. The government also provides a number of social welfare programs and public schools. Buyers and sellers determine price of goods and services based on supply and demand. Private owners produce goods for domestic and international markets.</td>
</tr>
</tbody>
</table>
Group Members: ____________________________________________________________

1. United Kingdom
   Describe location on continuum _____________________________________________
   Explain your reasoning ___________________________________________________

2. Germany
   Describe location on continuum _____________________________________________
   Explain your reasoning ___________________________________________________

3. Russia
   Describe location on continuum _____________________________________________
   Explain your reasoning ___________________________________________________

4. Australia
   Describe location on continuum _____________________________________________
   Explain your reasoning ___________________________________________________

5. Cuba
   Describe location on continuum _____________________________________________
   Explain your reasoning ___________________________________________________

6. Brazil
   Describe location on continuum _____________________________________________
   Explain your reasoning ___________________________________________________

7. Canada
   Describe location on continuum _____________________________________________
   Explain your reasoning ___________________________________________________

8. United States
   Describe Location on continuum _____________________________________________
   Explain your reasoning ___________________________________________________
Comparing European Economies
United Kingdom, Germany, and Russia

United Kingdom
Economic System
🌟 UK has a __________ economic system
   It’s actually closer to a __________ economy than any other European country
🌟 UK is __________ strong; one of the world’s leading ________ powers

Natural Resources
🌟 What’s available?
   Coal, __________, natural gas, iron ore, lead, zinc, __________, tin, limestone, salt, clay, chalk, gypsum, potash, silica sand, slate, __________ land

Land Use
🌟 What percentage of the land is __________ (capable of being ________)
   ________
🌟 What are the major ____________ products?
   Cereals, oilseed, potatoes, vegetables, cattle, sheep, poultry, & fish

Industries
🌟 What’s being __________ in the ____________
   Machine tools, electric power equipment, automation equipment, railroad equipment, ____________, aircraft, motor vehicles, communications devices, metals, chemicals, coal, petroleum, paper, textiles, food processing, clothing, & other consumer goods

Literacy Rate
🌟 What percentage of people over the age of 15 can read and write?
   __________
🌟 How long are students required to stay in school?
   __________

Unemployment Rate
🌟 What percentage of people do not have jobs?
   __________
🌟 What percentage of people live in poverty?
   __________

GDP (₢)
🌟 $2.137 trillion (2007)
🌟 GDP ____________ --What is the value of goods and services produced per person?
   $35,100 (2007)

Economic Problems
🌟 Unemployment
🌟 Over depletion of natural resources (pollution)
🌟 Improving public services (which forces the country to raise taxes)
Federal Republic of Germany
Economic System
* Germany has a __________ economic system
  After __________ in 1990, East Germany had to move away from a
  __________ economic system and slowly towards a Mixed system.
* Germany’s economy is Europe’s __________ and is the ______ largest in the world
Natural Resources
* What’s available?
  Coal, lignite, __________, iron ore, copper, nickel, uranium, potash, salt,
  construction materials, __________, arable land
Land Use
* What percentage of the land is __________ (capable of being __________)?
* What are the major agricultural products?
  Potatoes, wheat, barley, sugar beets, fruit, cabbages, cattle, pigs, poultry
Industries
* What’s being __________ in the __________?
  Among the world’s __________ and most __________ __________ producers of iron, steel, coal, cement, chemicals, machinery, vehicles, machine
  tools, electronics, food & beverages, shipbuilding, & textiles
Literacy Rate
* What percentage of people over the age of 15 can ______ and ______?
* How long are students required to stay in school?
* __________
Unemployment Rate
* What percentage of people do not have jobs?
* __________
* What percentage of people live in poverty?
* __________
  GDP (_________ __________ __________)
  $2.81 trillion (2007)
  GDP ______ ______ --What is the value of goods and services produced ______ ______?
  $34,200 (2007)
Economic Problems
* Modernizing the former East German economy (annual transfers from west to east of
  ______ _______.)
  The former East Germany’s decayed economy continues to be a _________ on the
  country
* __________
* Over ______ of ________ ________ (pollution)
* Improving public services (which forces the country to raise taxes)
Russian Federation
Economic System
- Russia has a __________ __________ __________
  - Russia’s economy has been moving ________ from a __________ economy and more ________ a ________ __________ economy since the fall of the ________ __________ in ________...not there yet (Mixed)

Natural Resources
- What’s available?
  - Wide __________ __________ base including ________ deposits of ____, ________, coal, many ____________, timber
*Obstacles such as harsh climate, terrain, distance, & size __________ Russia’s exploitation (use) of natural resources

Land Use
- What percentage of the land is ________ (capable of being ________)?
  - 7% (__________ over ________ is a major ________ for growing crops!)
  - What are the major agricultural products?
    - Grain, sugar beets, sunflower seed, vegetables, fruits, beef, milk

Industries
- What’s being ____________ in the ____________?
  - Coal, oil, gas, chemicals, metals, machines, aircrafts, space vehicles, shipbuilding, communication devices, tractors, construction equipment, medical & scientific instruments, textiles

Literacy Rate
- What percentage of people over the age of 15 can read and write?
  - __________
- How long are students required to stay in school?
  - __________

Unemployment Rate
- What percentage of people do not have jobs?
  - __________
- What percentage of people live in poverty?
  - __________

GDP
- $2.08 trillion (2007)
- GDP Per Capita—What is the value of goods and services produced per person?
  - $14,700 (2007)

Economic Problems
- Natural resources are __________ to use because of the __________ climate, size and few ____________ Rivers
- Moving ________ ________ the former __________ economy of the Soviet Union (where the government made all of the decisions), and letting the public have a greater influence on the economy
- Unemployment