

Three Key Economic questions and Three types of Economies chapter 2.1

If your cow isn't giving any milk maybe it's time to sell him.

Key Economic Question #1

1. What goods and services should be produced?

- How much of our resources should we devote to national defense, education, public health and welfare, or consumer goods --- the guns versus butter debate.

Key Economic Question #2

2. How should these goods and services be produced?

- What combination of factor resources – land, labor, and capital – should be used. i.e. manual labor versus mechanical labor.

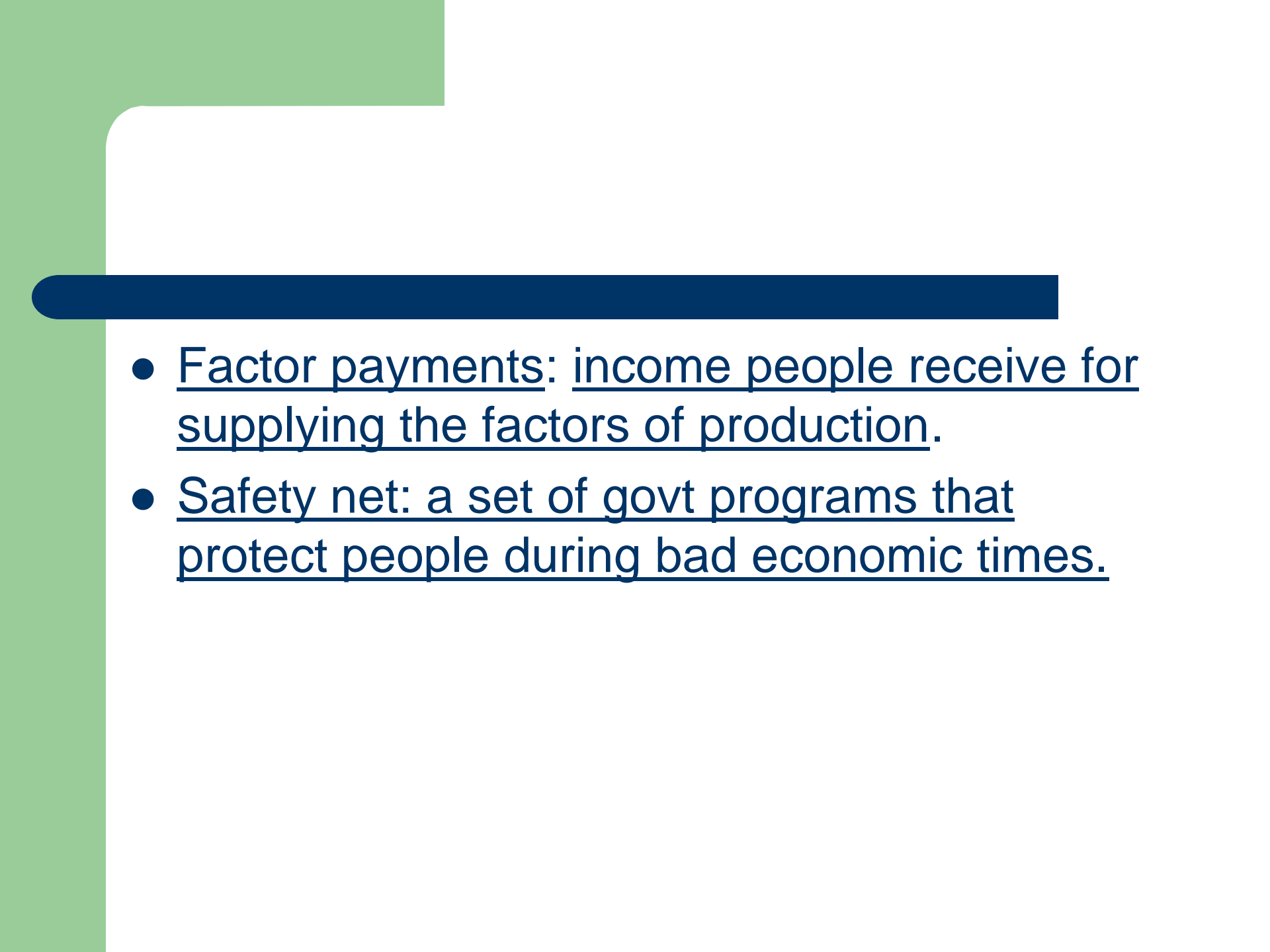
Key Economic Question #3

3. Who consumes these goods and services?

- How will the income be distributed? How will factor payments be determined?

Economic Goals

| | |
|---------------------------------------|--|
| Economic efficiency | Making the most of resources |
| Economic freedom | Freedom from government intervention in the production and distribution of goods and services |
| Economic predictability | Assurance that goods and services will be available and payments will be made on time. |
| Economic equity | Fair distribution of wealth |
| Economic growth and innovation | Innovation leads to economic growth, and economic growth leads to a higher standard of living. |
| Economic Security | A safety net is provided for individuals --like welfare. |
| Other Goals | Societies pursue additional goals, such as environmental protection. |

- 
- Factor payments: income people receive for supplying the factors of production.
 - Safety net: a set of govt programs that protect people during bad economic times.

Types of Economic Systems

1. Traditional Economy
2. Command or Centrally Planned Economy
3. Market Economy

Traditional Economies

- **Traditional economies** rely on habit, custom, or ritual to decide what to produce, how to produce it, and to whom to distribute it. Examples: Eskimos, tribal communities

Centrally Planned Economy

- In a **Command or Centrally planned economy** the central government makes all decisions about the production and consumption of goods and services. Examples: Cuba, China, other communist countries, kingdoms and dictatorships.

Market Economy

- In a **Market economy** economic decisions are made by individuals and are based on exchange or trade. Examples: United States, Canada, and Australia

Types of Economic Systems

| Economic System | What to produce | How to produce | For Whom to produce |
|-----------------------------|--|------------------------------------|---|
| Traditional | Determined by tradition Economic roles passed from generation to generation | Determined by custom | Usually centered around traditional family and social units such as a tribe |
| Centrally Planned (Command) | Determined by government officials | Determined by government officials | Determined by government officials |
| Market | Determined by individuals | Determined by individuals | Determined by individuals |

Mixed Economy

- **Mixed economies** are systems that combine tradition and the free market with limited government intervention.
- Most economies today are mixed economies.

Types of Mixed Economies

- Socialism – every one should be treated equally economically
- Communism – the government owns or controls most of all the goods and services -- closest to Command Economy
- Major difference between socialism and communism is that socialists can have a democracy while a communist believes there needs to be a violent revolution and needs a strong centrally planned, authoritarian government.

More types of Mixed Economies

- Capitalism- a market economy where the government has a limited control of certain markets. Taxation and spending allow the government to provide a variety of services such as education, welfare and national defense.
- Democratic Socialism – Government owns and runs key industries such as electrical utilities, telephone networks, and health care.