Name ________________________ Date ______________

Flocabulary

Economic Systems

Learn more about this topic! Each section gives more detail on one of the lyrics from the song. Read each section, and then respond by answering the question or taking notes on key ideas.

1. Economic systems answer three fundamental questions: What is produced? How is it produced? For whom is it produced? In a command economy, like communism, the government owns all factors of production. Because of this, the government decides what is produced, how it is produced and who receives the goods and services they produce. In a market economy, like capitalism, factors of production are owned by private individuals and businesses. It is up to these independent entities to decide what is produced and how it is produced. With no government involvement, individual consumers decide which goods or services they would like to purchase. In a mixed economy, like socialism, the answers are a bit less black and white. Certain services are handled publicly. That means the government determines what those services look like, how they are created and who is eligible for which services. On the other hand, since private property is allowed, some private businesses create goods and services that individual consumers can decide to purchase.

Notes

2. Every economic system is theoretical. As a result, these systems do not account for the intricacies of the real world. In theory, a command economy promotes fairness and equal distribution of wealth. In reality, its framework cannot account for greed or unchecked power by those in charge. Similarly, a market economy lends itself a winner-take-all attitude. In reality, there is usually a practical need to support members of society who need financial assistance. Because of this, the vast majority of economic systems around the world are mixed economies. The term mixed economy represents a wide spectrum of economic systems. Because capitalist countries like the United States offer publicly-funded social programs and communist countries like Cuba recognize private property, neither country can be considered a purely market or command economy.

Notes

3. There is a fourth type of economic system: a traditional economy. A traditional economy is based on traditions and customs. In a traditional economy, economic activity tends to center on family, tribe or some other type of social group. Historical precedent and a society's environment determine the means by which resources are collected, produced and distributed. For example, some traditional economies focus on farming. Others are built around hunting and gathering. These highly specific methods of production result in very little choice and competition. Societal roles are often clearly defined and participants tend to understand the system very well. Due to the historical nature and rigid structure of most traditional economies, change and innovation is rare. Furthermore, social mobility is limited as birth typically determines one's role in society. Though traditional economies may never produce advanced technology or compete with world powers, there are plenty of examples of sophisticated, sustainable systems that have stood the test of time.

Notes

4. In a market economy, market forces called supply and demand determine price and rate of production. Supply is the amount of available goods and services. Demand is the desire of customers to purchase a given good or service. If demand is low and supply is high, prices decrease. If supply is low and demand is high, prices rise. When demand surpasses supply, it is in the best interest of a business to increase production to meet the demand for their product. Conversely, as demand decreases, businesses will likely decrease their rate of production. In theory, there is an equilibrium price for any good or service. The equilibrium price is the price at which a business sells every unit of a product they create and every consumer who wants that product can get it. In other words, equilibrium is achieved when supply matches demand perfectly.

Notes

5. A key principle of a market economy is personal freedom. In theory, individuals are free to work as hard as they please to earn as much money as they can. Once earned, that money is theirs to save, invest or spend. In this system, there is incentive and opportunity to accrue wealth. At the same time, financial security is not guaranteed. Unwise spending or a lack of government safeguards may set one person on the path to poverty. Meanwhile, an inheritance or successful business venture may set another person on the path to affluence. With extreme highs and lows, inequality is as much a trait of a market economy as personal freedom is. In contrast, in a purely command economy, money is distributed evenly. Because of this, there is no incentive to accrue wealth. However, there is also, in theory, no opportunity to fall into poverty.

Notes

6. A command economy is also known as a planned economy. Since the government has complete control over economic activity, activity can be planned to achieve specific goals. In theory, these goals should include fairness and stability. With carefully planned distribution of wealth and an absence of supply and demand, a command economy should be highly predictable. Individuals should have equal outcomes and a level of financial stability that matches the overall stability of the economic system. In reality, centralized economic control places power in the hands of a small group of people. In communist Russia and China in the 20th century, this outsize power resulted in totalitarian rule, inequality and instability. Today, we see the same issues in North Korea, one of the only active command economies in the world.

Notes