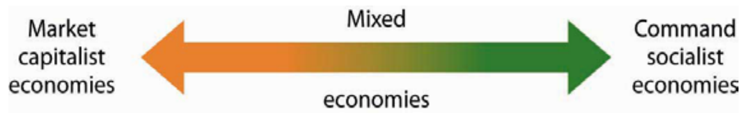
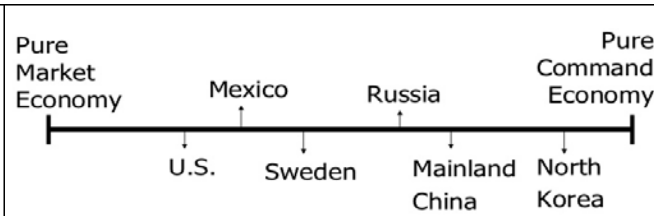
Name: ______________________________________ Date: ______________ Period: _____________

ECONOMIC SYSTEMS



No government control
Low level of social services

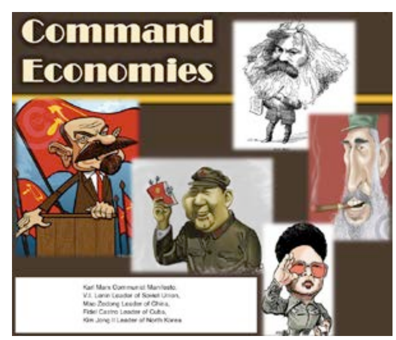
100% government control
High level of social services



Traditional economy is an original economic system in which traditions, customs, and beliefs shape the goods and the services the economy produces, as well as the rules and manner of their distribution. Countries that use this type of economic system are often rural and farm-based. This economy is defined by bartering and trading. It is also known as a subsistence economy, since little surplus (extra) is produced, usually just enough to survive. A pure traditional economy has had no changes in how it operates (there are few of these today). Examples of traditional economies include those of the Inuit or those of the tea plantations in South India. Traditional economies are popularly conceived of as "primitive" or "undeveloped" economic systems, having tools or techniques seen as outdated. These economies may be based on custom and tradition of the community (family, clan, or tribe).

Free Market Economy (Free enterprise system) – An economy where the decisions regarding investment, production, and distribution are based on supply and demand. The prices of goods and services are determined in a free price system. This system places little restrictions on business activities or ownership. Furthermore, governments generally have minimal ownership of enterprises in the market place. This system aims for limited restrictions on trade and minimal government intervention. Unexpected events or changes in the economy are adjusted demand and supply. Prices of goods and services in a free enterprise system are set by the interaction of supply and demand. Philosopher Fredrich Hayek was a believer and supporter of capitalism. In reality, a pure market economy does not exist.

Command Economy (Communist) – An economic system where the decisions regarding investment and production belong to a central authority, usually a public body such as a government agency. It is also a political and economic way of organizing a society in which the government owns the things that are used to make and transport products (such as land, oil, factories, ships, etc.). Furthermore, there is no privately owned property nor is there a class system. This system is sometimes referred to as a planned economy, since the planners (central authority) aim to take advantage of better information to make the best decisions. Communism, which can be thought of as capitalism's opposite, says that in a capitalist society, the working class (the proletariat) is exploited by the ruling class (the bourgeoisie). A system where the government, rather than the free market or people, determines what goods should be produced, how much should be produced and the price at which the goods will be offered for sale. The command economy is a key feature of any communist society. Laos, Cuba, North Korea and the former Soviet Union are examples of countries that have command economies.



Mixed Economy (Socialism) - A mixed economic system (also known as a Dual Economy) is just like it sounds (a combination of economic systems). It combines economic freedoms of a free market economy with the principles of socialistic economic control. It primarily refers to a mixture of a free market and command economy (for obvious reasons, a traditional economy does not typically mix well). As you can imagine, many variations exist. Most countries in the world fall under this type of economy at different degrees.

Utopia - an imaginary place in which the government, laws, and social conditions are perfect.

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Directions: Read the questions below and using the definitions above, determine which economic system is being described.
Traditional Economy, Free Market Economy, Command Economy, Mixed Economy, or Utopia

1. Mary rarely makes any economic choices and is often told what expected of her from the government. She really does not like it when others have more than she has. She thinks everyone should be rewarded equally. People with values like Mary's are happiest living in and maintaining which type of economic system?

2. John lives in a place where society functions as one. Everyone works hard for the greater good of society. People are not rewarded for their hard work with money or more pay because there is no money system. People do not buy and sell goods and services; instead they openly share with each other. There are no laws, because everyone understands what the right thing to do is. This explains why there is no prison system. What sort of economic system does John reside in?

3. Christina enjoys the freedom of choice. The society in which she lives is bubbling with businesses that offer a variety of products from which she can choose from daily. Competition among sellers within her society guarantees that she is getting the best product at the lowest possible price. This is possible because the sellers are not impeded (interfered) by the government. Which economic system is Christina enjoying in her society?

4. Jose lives in a society that is considered to be middle of the road. This place enjoys the perks of modern business practices, but still relies upon the government to take control of the other aspects such as healthcare and social programs. His society does emphasize equality and the greater good of all, but occasionally embraces the freedom of choice. What economic system does Jose live under?

5. The Jones family has been part of their community since it was first established in 1768. Many of the people living in his community have been engage in the same economic activities for generations. For example, the Jones family has been farming potatoes for the last 7 generations. Since the people living in this community have rejected modern technology, life in this community has not changed much.

Directions: Using the selected reading from the previous page to complete the following multiple choice questions.

6. Which type of economy can be found in countries such as Laos, North Korea, and Cuba?

a) Traditional Economy b) Free Market Economy c) Command Economy d) Mixed Economy

7. This dual economy has characteristics from two other types of economies?

a) Traditional Economy b) Free Market Economy c) Command Economy d) Mixed Economy

8. Basic economy that that is defined by trade and barter?

a) Traditional Economy b) Free Market Economy c) Command Economy d) Mixed Economy

9. Which economy is called a planned economy because a central authority makes all the economic decisions?

a) Traditional Economy b) Free Market Economy c) Command Economy d) Mixed Economy

10. Which economy has limited restrictions on trade and minimal government intervention?

a) Traditional Economy b) Free Market Economy c) Command Economy d) Mixed Economy

11. Most countries in the world would fall under which type of economy?

a) Traditional Economy b) Free Market Economy c) Command Economy d) Mixed Economy

12. Which economy is called a subsistence economy because only enough food needed to survive produced?

a) Traditional Economy b) Free Market Economy c) Command Economy d) Mixed Economy

13. In which economy is price set by the interaction of supply and demand?

a) Traditional Economy b) Free Market Economy c) Command Economy d) Mixed Economy