



Economic Systems

Coach Burnett.
AP Macroeconomics

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Why do we have Economic Systems?

- ◆ Survival for any society depends on its ability to provide food, clothing, and shelter for its people.
- ◆ The Economic System is the organized way a society provides for the wants and needs of its people.

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Three Economic Systems

- ◆ Traditional Economy
- ◆ Command Economy
- ◆ Market Economy



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Traditional Economy

- ◆ Economic activity is based on ritual, habit, and custom



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Strengths of Traditional Economies

- ◆ Everyone knows their role
- ◆ Little uncertainty about what to produce
- ◆ The question of 'For Whom' to produce is answered by custom
- ◆ Life is generally stable, predictable, and continuous



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Weaknesses of Traditional Economies



- ◆ Tends to discourage new ideas
- ◆ Lack of progress leads to lower standard of living

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Command Economy



- ◆ Central Authority makes most economic decisions
- ◆ Economic decisions are made at the top and the people are expected to go along with the choices their leaders make

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Strengths of Command Economies

You can get with this



Or you can get with that

- ◆ Change direction in a relatively short period of time (The U.S.S.R. went from being primarily an agrarian society to an industrial nation rather quickly)

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Weaknesses of Command Economies

- ◆ Not designed to meet the wants and needs of individuals
- ◆ Lack of incentives to work hard leads to unexpected results
- ◆ Large bureaucracy for economic planning
- ◆ Not flexible in dealing with minor day to day problems
- ◆ People with new or unique ideas are stifled

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Market Economy



- ◆ People and firms act in their own best interest in order to answer economic questions
- ◆ Markets allow buyers and sellers to come together in order to exchange goods and services

GDF ↓ .15 HJK ↑ 1.25 RTY ↓ 1.23 IOP ↑ .05 BNM ↑ 12.0 XCV ↑ .20 QEW ↓ .65

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Strengths of Market Economies

- ◆ Markets can adjust over time
- ◆ Freedom exists for everyone involved
- ◆ Relatively small degree of governmental influence
- ◆ Decision making is decentralized
- ◆ Variety of goods and services are produced
- ◆ High degree of consumer satisfaction

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Weaknesses of Market Economies

- ◆ The primary weakness is deciding 'For Whom' to produce
- ◆ The young, sick, and old would have difficulty in a pure market environment
- ◆ Markets sometimes fail
 - ◆ Competition (monopolies may develop)
 - ◆ Resource mobility (resources are sometimes hindered from moving about)
 - ◆ Availability of information (producers often have more information than do consumers, which gives them an advantage)

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