# Economic Systems and Economic Goals

Unit 1, Lesson 7: How do societies respond to scarcity?

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# Economic Systems

- Evolved in response to the fundamental economic problem faced by all societies:

  unlimited wants + limited resources = scarcity

- An economic system deals with the production, distribution, and consumption of goods and services in a society.
- You will experience working in traditional, mixed, and command economic systems.

# Basic Economic Systems (in Theory)

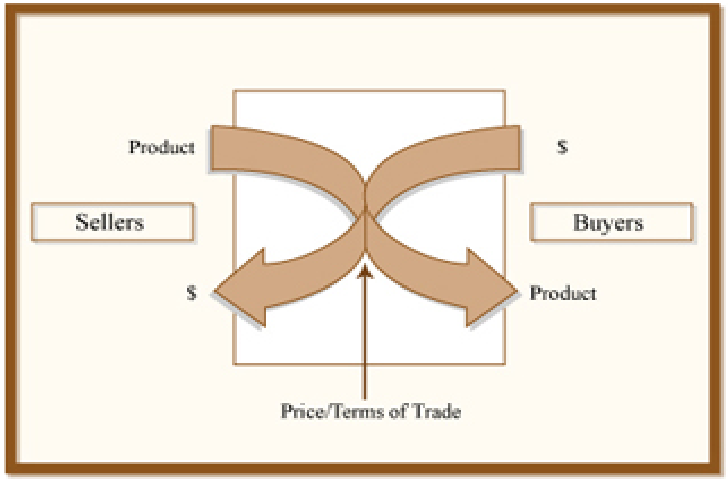
- **Traditional Economy**
- **Market Economy**
- **Command Economy**

# Traditional Economy

- Resources are allocated by inheritance.
- Choices are made based on custom and rituals.
- Economic roles are passed from generation to generation.

# Market Economy

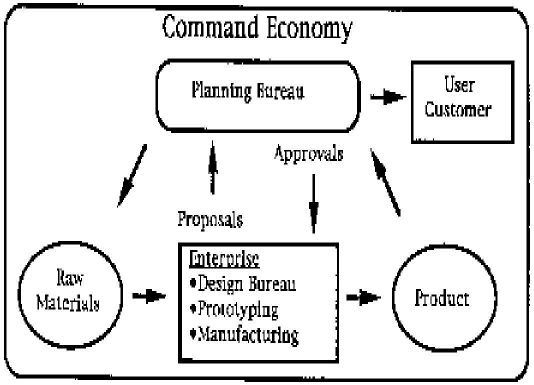
- Decisions about production, distribution and consumption are made through the interactions of buyers and sellers.
- Focuses on economic efficiency.
- Relies on individual incentives
- Emphasizes the role of "choice" by buyers and sellers




- Also known as free market or free enterprise systems

# Command Economy

- A very strict, strong central planner controls this economic system.
- The system is highly organized and the central planner assigns specific tasks for each member of the group.



# How Economic Systems Differ

**It is really about how groups of people answer three economic questions:**

- **What is produced?**
- **How is it produced?**
- **For whom should it be produced?**

- **To figure out the answers to these questions, look at**
  - **Who owns the factors of production and**
  - **The method used to coordinate and direct economic decisions**

# Economic Goals

- Each economic system you will experience in the simulation focuses on certain economic goals.
- There are six basic economic goals:
  - Economic Freedom
  - Economic Equity
  - Economic Efficiency
  - Economic Security
  - Economic Stability
  - Economic Growth

# Economic Freedom

- **This concerns the freedom of the marketplace**
- **It provides members of a society the ability to undertake economic direction and actions, with little government intervention.**
- **Examples:**
  - **Freedom of consumers to decide how they wish to spend money among various goods and services.**
  - **Freedom of workers to choose occupations; to change jobs; and to organize labor unions.**
  - **Freedom of individuals to establish businesses; decide what and how to produce, with limited government intervention.**

# Economic Equity

- **The situation in which the outcome of an economic transaction is fair to each party.**
- **An outcome can usually be considered fair if each party enters into a transaction freely and is <u>not unknowingly</u> at a disadvantage.**

# Economic Efficiency

- An economic principle holding that businesses and individuals should fulfill as many of society's needs as possible while maximizing the provided resources.
- The greater the output for a given input, the more efficient the process.

# Economic Security

- **The condition of having stable income or other resources to support a standard of living now and in the foreseeable future.**

# Economic Stability

- **This goal refers to an absence of excessive fluctuations.**
- **An economy with fairly constant output growth and low and stable inflation and low unemployment would be considered stable.**

# Economic Growth

**This is the increase in the capacity of an economy to produce goods and services, compared from one period of time to another.**

# Mixed Economic System

- Adopts aspects of both market (individual incentives) and command (some government intervention)
- The three major macroeconomic goals of the economic system in the United States are:
  - Full Employment (Economic Security)
  - Stable Prices (Economic Stability)
  - Increasing Economic Growth (Economic Growth)
- This has resulted in a mixed economic system in the U.S.

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