

Lesson Graphic Organizer

TYPES OF ECONOMIC SYSTEMS

	Traditional	Mixed	Command
Characteristics	Follows tradition; Economic roles passed from generation to generation	Attempts to combine best of individual incentive and government involvement; Maximize profits and reduce costs	Heavy government involvement
Decision Making	Based on custom and ritual	Based on interactions of buyers and sellers with some government protection	By government officials

Big Idea Card

Big Ideas of Lesson 7, Unit 1

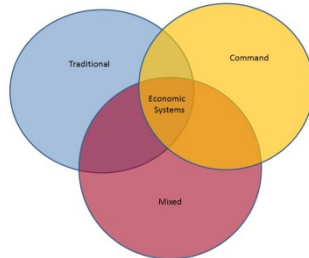
- Societies organize their economic systems based on how they answer the three fundamental economic questions: What is produced?, How is it produced?, and For whom is it produced?
- Societies differ in how they value different economic goals such as economic freedom, economic equity, economic efficiency, economic security, economic stability, full employment, and economic growth.
- A traditional economy values the past and societal goals are determined by ancestral beliefs and customs.
- A command economy strives to strictly follow the directives of the government.
- A mixed economy attempts to combine the best of individual incentive and government involvement.

Word Cards

Word cards from previous lessons used in this lesson:

- **scarcity** – Word Card #4 from Lesson 1
- **choice** – Word Card #5 from Lesson 1
- **opportunity cost** – Word Card #6 from Lesson 1
- **resources** – Word Card #7 from Lesson 1
- **economic efficiency** – Word Card #17 from Lesson 4
- **inefficient** – Word Card #18 from Lesson 4
- **economic growth** – Word Card #25 from Lesson 4
- **factors of production** – Word Card #26
- **natural resource** – Word Card #27 from Lesson 5
- **human resource** – Word Card #28 from Lesson 5
- **capital resource** – Word Card #29 from Lesson 5
- **government intervention** – Word Card #40 from Lesson 6

42 economic systems



an organized way that a group of people address the use of scarce resources to satisfy their needs and wants

Example: There are several different types of economic systems in the world such as command, traditional, market or mixed.

(SS100107)

43 economic social goals

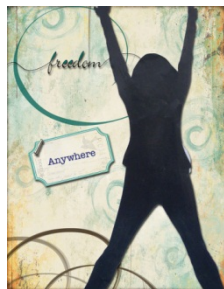


targets that are based on attitudes or values of a group of people such as efficiency, equity, freedom, growth, security and stability and that guide them in making economic decisions

Example: Americans want their economic system to support economic social goals such as efficiency and equity.

(SS100107)

44 economic freedom



the ability of people in a society to undertake economic direction and actions, with little government intervention

Example: Consumers can decide how they wish to spend money among various goods and services.

(SS100107)

45 economic equity



a situation in which the outcome of an economic transaction is fair to each party

Example: Workers want economic equity; they want to receive fair wages for the time, effort, and productivity that they provided a business.

(SS100107)

46 economic security

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

Example: Social security benefits that adjust with the cost-of-living provides economic security for many Americans

(SS100107)



47 economic stability

when an economy that experiences constant growth and low inflation.

Example: The United States demonstrated economic stability in the past year as GDP increased by 5%, inflation was measured at 3% .and the unemployment rate remained unchanged during the first 3 months of the calendar year.

(SS100107)

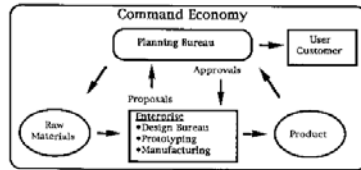


48 command economy

an economic system in which the government controls the factors of production and makes all decisions about their use

Example: In a command economy, workers are paid according to what the government decides and you may not be allowed to choose your own career.

(SS100107)



49 traditional economy

an economic system that answers the three basic questions based on customs and beliefs.

Example: In a traditional economy, people tend to do the same jobs in the same manner as their ancestors.

(SS100107)



50 mixed economy

combines the basic elements of pure market economy and a command economy

Example: The United States of America has a mixed economy because it combines individual incentives with some government regulation.

(SS100107)

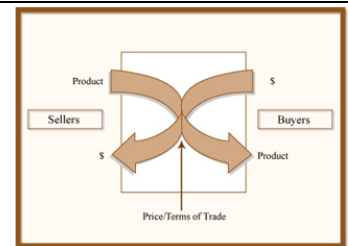


51 market economy

when economic decisions in this economy are made not by the government, but by individuals looking out for their own economic best interests

Example: A true market economy does not exist in the world, but economists use this model to help explain a mixed economy.

(SS100107)



52
full employment

when the highest amount of skilled and unskilled labor is employed within an economy at any given time



Example: The United States has a 5% unemployment rate which means we do not have full employment.

(SS100107)

53
claim

an arguable statement



Example: The CEO claimed that his cell phone was the best on the market.

(SS100107)

Economic Systems Simulation Teacher Guide

1. **Divide the class into three groups by selecting 9-12 persons per group**, depending on class size. It is better for the teacher to do this (randomly or arbitrarily) to reflect that in the real world we often don't get to choose our work colleagues.

2. Each group must experience each type of economic system. So three workstations should be set up around the room, with each group sitting at one station.

A—traditional

B—command (socialist)

C—mixed

3. Each economic system round lasts 10 minutes. Each group should receive the Economic Systems Descriptions prior to starting the first round. This eliminates groups from moving and will save time.

4. **Materials:**

Bead containers— a mixture of red, green, blue, and yellow beads. Do not give the lids to the containers to the groups as they will be used later in the game.

Scissors— 1 for each person-traditional group, 1 for command group, and 2 for mixed group

Rulers— 2 for traditional group, 1 for command group, 2 for mixed

Spool of string— if you can find two types of string: thin, spool of thread and a thicker, plastic string

Dixie Cups — at least 4 and these stay with the teacher

5. **Have handouts of all three economic system description sheets at each workstation.** Each group should read the instructions for the first round together before beginning and each group should follow all the rules and directions as to how to organize the economy to make rings, necklaces, and bracelets with colored beads. The teacher should go to each group to make sure instructions are understood.

6. **Each group should keep track of their productivity, items sold, collective earnings and individual earnings on the Jewelry Factory Production and Earnings Ledger sheet.** The teacher should also keep track of this on the board or overhead to monitor how each economic system is progressing.

7. The teacher should play the various roles in each economic system in attempt to guide student's learning about each system and encourage a particular outcome that best reflects each system's goals and values. It is important that students understand your roll in each economic system, both during production and when the goods are sold. These roles are described below and it is advised that you keep track of the roles on the board:

A. Traditional Economy:

Teacher role during production: You are acting as an "elder" in the community. You check to make sure each bracelet is made perfectly according to tradition. Remind students that they are not to assist each other.

Teacher role during buying/selling: You are acting as the market. Buy bracelets from each individual student, as long as they were made according to tradition. Stop buying bracelets once you have bought 10 total bracelets from this group. Tell them that the market has no more demand for

bracelets. Remind students that it is important that they record earnings for both individuals and for the whole group for this economic system. Also, tell the group to answer the two questions for this economic system that are on the Jewelry Factory Production and Earnings Ledger.

Outcome: Since the group can't produce anything but bracelets, according to tradition, the economic earnings will be limited to a maximum of \$50 per group. Though, this money may be distributed differently for each member of the group. The imposed restrictions on a specific product and in limited amounts reflect the emphasis traditional economic systems have on producing high quality goods, but in limited variety and quantity.

B. Command (socialist)

Teacher role during production: Tell the group that you are acting as the central planner for this economic system, which requires appointing a supervisor and helping her/him assign jobs. Everyone should have a job. Be sure to inspect and monitor this group closely to ensure the production procedures are being followed precisely as the central planner (you) has commanded. The students will eventually notice (some sooner than others) that the production requirements don't always make sense. They may have questions and express confusion: Why make ten rings first? Why such a complicated arrangement of beads? There doesn't need to be logical or reasonable answers for the questions asked. In fact, the teacher should help them to understand the more they follow directions and the less they complain, the easier it will be for them. There are a number of ways to accomplish this. For example, the central planner may decide to replace a supervisor who doesn't "motivate" her/his workers or discard jewelry that is not made correctly. Or, the central planner could insist that there is no mistake in the color bead arrangement of the necklace design, even though there is. (The color arrangement has only 11 beads while the design requires 12). Maintaining the attitude that the central planner is never wrong will best exhibit the frustrations of a strictly planned command economy.

Teacher role during buying/selling: You are still acting as the central planner and will purchase the jewelry quotas as stated in the Economic Systems Description handout that students received. You should buy 10 rings, then 3 necklaces and finally 5 bracelets. Do not purchase anything the group produces that is above and beyond the quota. Remind students that it is important that they record earnings for both individuals and for the whole group for this economic system. Also, tell the group to answer the two questions for this economic system that are on the Jewelry Factory Production and Earnings Ledger.

Outcome: The students should realize there is little incentive to improve production in this economic system. The quotas don't necessarily make sense. The central planner is uncompromising. And, if the supervisor and central planner do manage to get the group to actually produce the quota each worker only makes \$7 anyway. The central planner can keep any excess earnings or provide a fixed amount to a good hardnosed supervisor. Relief for the workers could be obtained in one way; historically, one of the issues of a command economic system has been the inability for the central planners to thoroughly inspect production, so they often relied on supervisors to falsify production results. Supervisors, who empathized with their workers, often faked the production results to show the quota was met when in actuality very little were produced. In other words, you may decide to let the group produce almost nothing, but still "meet" their quota and "earn" a salary.

C. Mixed:

Teacher role during production: The teacher will portray two roles during the production phase: the government and the economic cycle.

As the government, you will distribute a \$30 small business grant to the owner(s). This is not a loan and serves as an example of how in a mixed economic system the government can more directly subsidize economic production. The teacher should ensure that every member of the group has a job and that the owners are paying the workers. Some workers may earn more than others based on their effort and work.

About 2 minutes into the round, the teacher should return to the group and tell them to stop production. Tell the group you are acting as the government. The government has just discovered that GREEN beads have been found to cause rashes on necks. All necklace production should be halted. This can be a great talking point during the debriefing session about government regulation of goods and services.

About halfway through the mixed economy simulation, the teacher should return to this mixed group and tell them to stop production. First, inform the group that the government was incorrect regarding green beads causing rashes and that necklaces can now be produced. Second, tell the group that the economy is in a recession and the owner(s) needs to select an employee to be laid-off due to the recession. The owner(s) can select any one employee. That employee should sit idle for 2 minutes. After the 2 minutes expires, inform the owner(s) that the employee can be re-hired if desired. The purpose of this role is to show students how a downturn in the economy can affect employment and production.

With about 2 or 3 minutes left in the round, the teacher should return to the group for the last time. Tell the group that you are not acting as the government in this scenario. Due to the creativity and ingenuity of this economic system, new and improved capital goods are available to use. Give the group the dixie cups and thicker string. Tell the group that the dixie cups can be used as they see fit. Tell the group that any product made with the thicker string will be sold to the consumer at 2X the price.

Teacher role during buying/selling: You are acting as the market during this phase in the simulation and will buy what the group produces. You don't have to buy everything. It is recommended that you buy different jewelry amounts from each group. Remind students that it is important that they record earnings for both individuals and for the whole group for this economic system. Also, tell the group to answer the two questions for this economic system that are on the Jewelry Factory Production and Earnings Ledger.

Outcome: The goal of a mixed economic system is to combine the best elements of limited government involvement and free market, while minimizing negative drains on production and growth. Decisions about ownership, production, and monetary distribution can cause bickering and conflict, but such consternation reflects the potential pitfalls of this system.

ECONOMIC SYSTEMS NOTE-TRACKER

Type of Economic System	Description	Most Important Economic Goals	Evidence of Economic Goals	Who answered?
A				What to produce? How to produce? For whom?
B				What to produce? How to produce? For whom?
C				What to produce? How to produce? For whom?

Teacher Reference Guide

Economic System	Description	Who answered: What to produce? How to produce? For whom?
A: Traditional	<p>Resources allocated by inheritance and choices are made based on customs and rituals.</p> <p>Economic roles are passed from generation to generation.</p>	<p>Tradition and custom dictate the answers to these questions, usually passed on from generation to generation</p>
B: Command	<p>A very strict, strong central planner controls this economic system.</p> <p>This system is highly organized and the central planner assigns specific tasks for each member of the group.</p>	<p>Government officials</p>
C: Mixed	<p>Attempts to combine the best of individual incentive and government involvement</p>	<p>Interaction of buyers and sellers determine production, allocation, and distribution.</p>

Economic Systems Descriptions

ECONOMIC SYSTEM A

VALUES: Your group is primarily concerned with the way things were done in the past. Positions of authority, jobs, etc. are handed down according to tradition. You value the past and see no need for concern about increased economic growth in the future. Basically everything in your society is determined by beliefs and customs.

GOALS: Following tradition is your group's underlying goal. You aim to produce what your ancestors did and in the same way that they did, with the utmost care for creating a high quality, artistic product.

SITUATION: With your present limited resources of string, beads, rulers, and scissors, **you create only bracelets** because your society has always produced bracelets. You earn \$5 for each bracelet you produce and sell in the market.

PRODUCTION PROCESS:

1. You only make bracelets. Each person must make the entire bracelet, no specialization of tasks. Each person is given scissors. The group must share beads, rulers and string. You may not help each other with your work.

2. Each bracelet must be made in following way

Bracelet 6 inch string Each color must be used at lease twice

Make bracelet as decorative as possible

3. After the beads are on a string, it should be tied in a neat knot to finish the bracelet. The knot should be completely trimmed off as in past generations.

4. After each bracelet is finished it must be passed around the group clockwise and each member must examine it for its quality and beauty (This is an old tradition).

5. The maker may keep the bracelet or sell it to a buyer (teacher) for the market price of \$5, if all procedures are followed correctly. The teacher will examine the each bracelet for its excellence in craftsmanship.

6. According to tradition, each person can only make 1 bracelet every 2 minutes. So after you complete the first one, relax until 2 minutes are up before starting again.

7. Each member of the group should record his/her production and earnings ledger.

Economic Systems Descriptions

ECONOMIC SYSTEM B

VALUES: A very strict, strong central planner (the teacher) operates this economic system. This system is highly organized and the central planner assigns specific tasks for each member of the group. Your economic system strives to strictly following the directives of the central planner and the appointed supervisor. Hopefully, this will increase economic growth and raise the overall standard of living.

GOALS: Your group's primary goal is to use your resources to produce a specific quota that the central planner finds necessary for your society and to do so in exactly the way it has been decided. To achieve this goal, each group member must efficiently use time and resources to increase production.

SITUATION: Your group gets \$10 for a necklace, \$5 for each bracelet and \$2 for each ring. Then, you will make necklaces and then bracelets. The beads, string, rulers and scissors are owned by the government and must be used as stated by the supervisor and central planner.

PRODUCTION PROCESS:

1. Your central planner requires you produce 10 rings before anything else. **Your society needs 10 rings immediately to fulfill the quota.**

2. **Jobs:** Your central planner emphasizes specialization. You will be organized in jobs in the following way. There will be only one supervisor and one string cutter. There may be up to two persons appointed to the other jobs, which is decided by the supervisor.

(1) **Supervisor:** Chosen by the Central Planner

(1) **String Cutter:** Chosen by the supervisor, person closest to front of room

(1 or 2) **Bead sorter(s):** chosen by the supervisor, sits to left of String cutter

(1 or 2) **Bead stringer(s):** chosen by the supervisor, sits to left of Bead sorter

(1 or 2) **Knot maker(s):** chosen by the supervisor, sits to left of Bead stringer

3. **You must make items in the following order:**

10 Rings 4 inch string 4 beads, one of each color
Each in different orders

3 Necklaces 10 inch string 12 beads, three of each color
yellow, 2 green, 1 yellow, 3 red, 3 blue

2

5 Bracelets 6 inch string 8 beads, two of each color in reverse order listed
2 blue, 1 green, 1 yellow, 2 red, 1 green, 1 yellow

4. After the beads are on the string, it should be tied. After tied, hand your product to the supervisor, who will inspect it and **record your production and group earnings.**

5. **If any product is not made exactly as stated in the directions, that product will be discarded and the group will suffer a loss of earnings.** Excessive mistakes may result in more severe consequences. The central planner may visit to inspect and monitor the group.

6. **Each person will receive \$7 dollars if your total quota is made.** After that, any extra dollars earned by production beyond the quota will go to the supervisor or central planner.

7. The central planner does not see or inspect the actual product. It is sufficient for the supervisor to provide a written account that the full quota was achieved.

Economic Systems Descriptions

ECONOMIC SYSTEM C

VALUES: Your economic system attempts to combine the best of individual incentive and government involvement. Your system first aims to maintain an adequate standard of living for all by producing what your society needs and wants. Individual incentives are used to stimulate production.

GOALS: To balance what consumers demand with a production method that costs the least and maximizes profit. You organize jobs in order to make the most efficient use of time and resources.

SITUATION: Your group gets \$10 for a necklace, \$5 for a bracelet and \$2 for a ring. Everyone is paid for his/her work, as decided by the owner, employees and government.

PRODUCTION PROCESS:

1. You must choose how your system will be run. You can have one person be the owner, multiple persons, or no one at all. Those who are not owners will be employees.

Owner(s): Help decide production; receive financial incentives.

Employees: Work for the owner(s); help decide production, receive financial incentives.

2. Jobs: It is up to the group to organize and select jobs. At the beginning of the simulation, everyone should have a job, but this may change during the simulation. The owner(s) may assist in the production. Financial incentives can be given to the owner and employees for their individual work effort.

String cutter(s) Bead sorter(s) Bead stringer(s) Knot tier(s) Inspector

3. Products: You make these products with the following bead arrangements. Because you are uncertain what buyers will desire, this economy needs to produce *at least two of every product* first before the owners decide what to mass produce.

Necklaces	10 inch sting	12 beads, three of each color in order 3 green, 3 red, 3 blue, 3 yellow
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Bracelets	6 inch string	9 beads, two of each color in order 3 red, 3 yellow, 3 blue
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Rings	4 inch sting	5 beads in order red, yellow, blue
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4. After the beads are on the string, it should be tied. You may trim the knot neatly if you wish. It is each group member's responsibility to make sure the production procedures are followed.

5. The owner(s) and employees will determine the pay structure. The government will receive tax money that will equal 10% of the total earnings.

6. Each group member is responsible for recording his/her production and monetary transactions in the ledger.

Jewelry Factory Production and Earnings Ledger

Names of Group Members:

ECONOMIC SYSTEM FIRST ROUND: _____

OF RINGS PRODUCED:

OF RINGS SOLD:

OF BRACELETS PRODUCED:

OF BRACELETS SOLD

OF NECKLACES PRODUCED

OF NECKLACES SOLD:

GROUP EARNINGS:

INDIVIDUAL EARNINGS:

ECONOMIC SYSTEM SECOND ROUND: _____

OF RINGS PRODUCED:

OF RINGS SOLD:

OF BRACELETS PRODUCED:

OF BRACELETS SOLD

OF NECKLACES PRODUCED

OF NECKLACES SOLD:

GROUP EARNINGS:

INDIVIDUAL EARNINGS:

ECONOMIC SYSTEM THIRD ROUND: _____

OF RINGS PRODUCED:

OF RINGS SOLD:

OF BRACELETS PRODUCED:

OF BRACELETS SOLD

OF NECKLACES PRODUCED

OF NECKLACES SOLD:

GROUP EARNINGS:

INDIVIDUAL EARNINGS:

ECONOMIC SYSTEMS & ECONOMIC GOALS ASSESSMENT
Use the Economic Systems Note-Tracker

1. Make a claim: This economic system has the greatest possibility to create wealth for its citizens.
 - a. Traditional
 - b. Mixed
 - c. Command

Questions #2 - #5 will be based on your decision from #1

2. Who determines what is produced in this system?
3. Who determines how it is produced in this system?
4. For whom are the goods and services produced?
5. Explain how the economic goals of this system would contribute in creating wealth for its citizens.

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6. Make a claim: This economic system would most likely have the slowest economic growth.
 - a. Traditional
 - b. Mixed
 - c. Command

Questions #7 - #10 will be based on your decision from #6

7. Who determines what is produced in this system?
8. Who determines how it is produced in this system?
9. For whom are the goods and services produced?
10. Explain how the economic goals of this system would contribute to slow economic growth.

11. Make a claim: The working class in this economic system has the greatest possibility to revolt due to the lack of incentives.
- Traditional
 - Mixed
 - Command

Questions #12 - #15 will be based on your decision from #11

12. Who determines what is produced in this system?
13. Who determines how it is produced in this system?
14. For whom are the goods and services produced?
15. Explain how the economic goals of this system would contribute to the working class revolting due to the lack of incentives.