

ECO 2013 – Principles of Economics (Macro)

Ch. 4 Economic Systems & Resource Allocation

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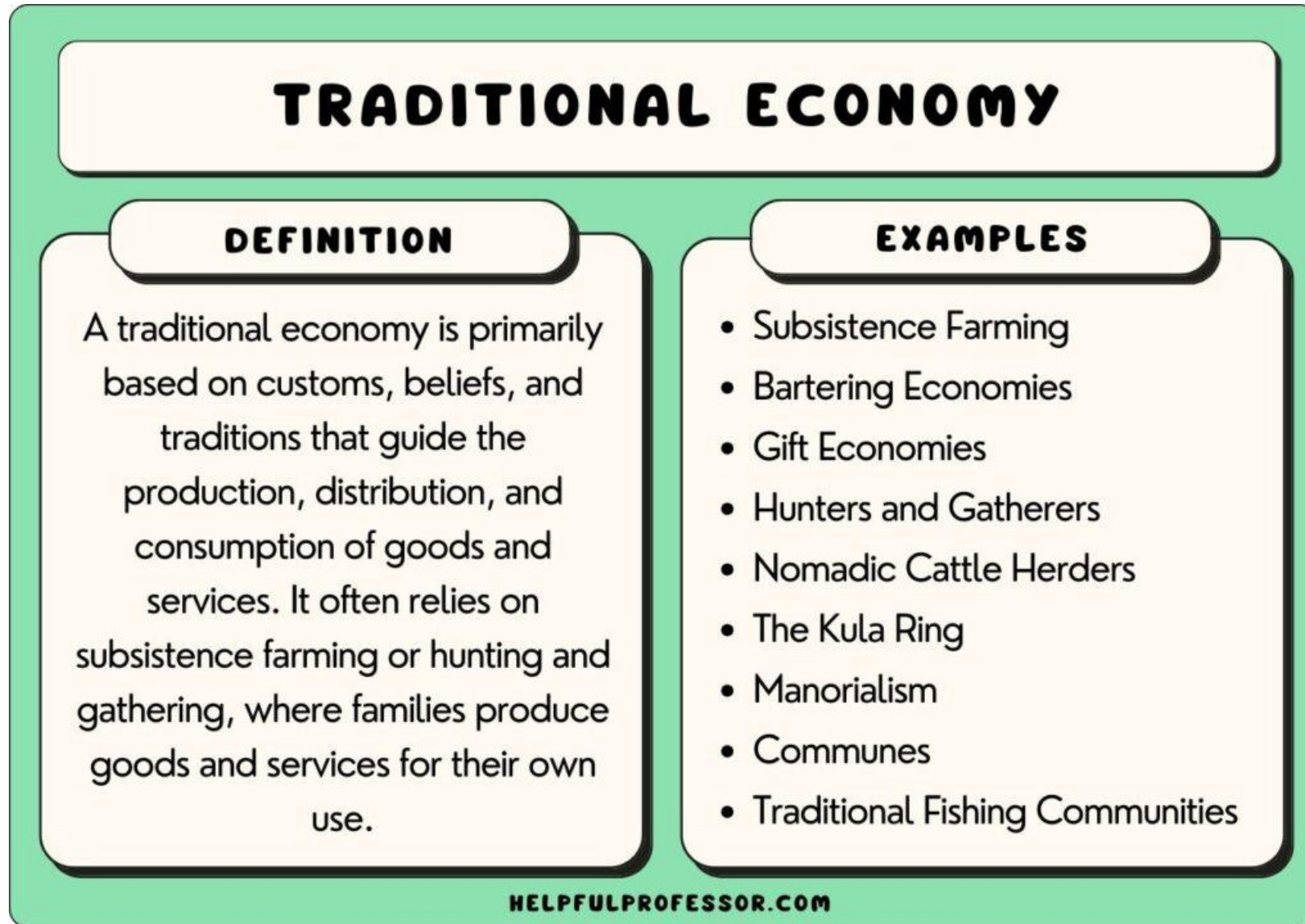
Economic systems are the methods a society uses to organize the production, distribution, and consumption of goods and services. They determine how resources are allocated, what goods and services are produced, and for whom they are produced. Different types of economic systems exist, each with its own strengths and weaknesses. Next, we will look at a breakdown of the main types:



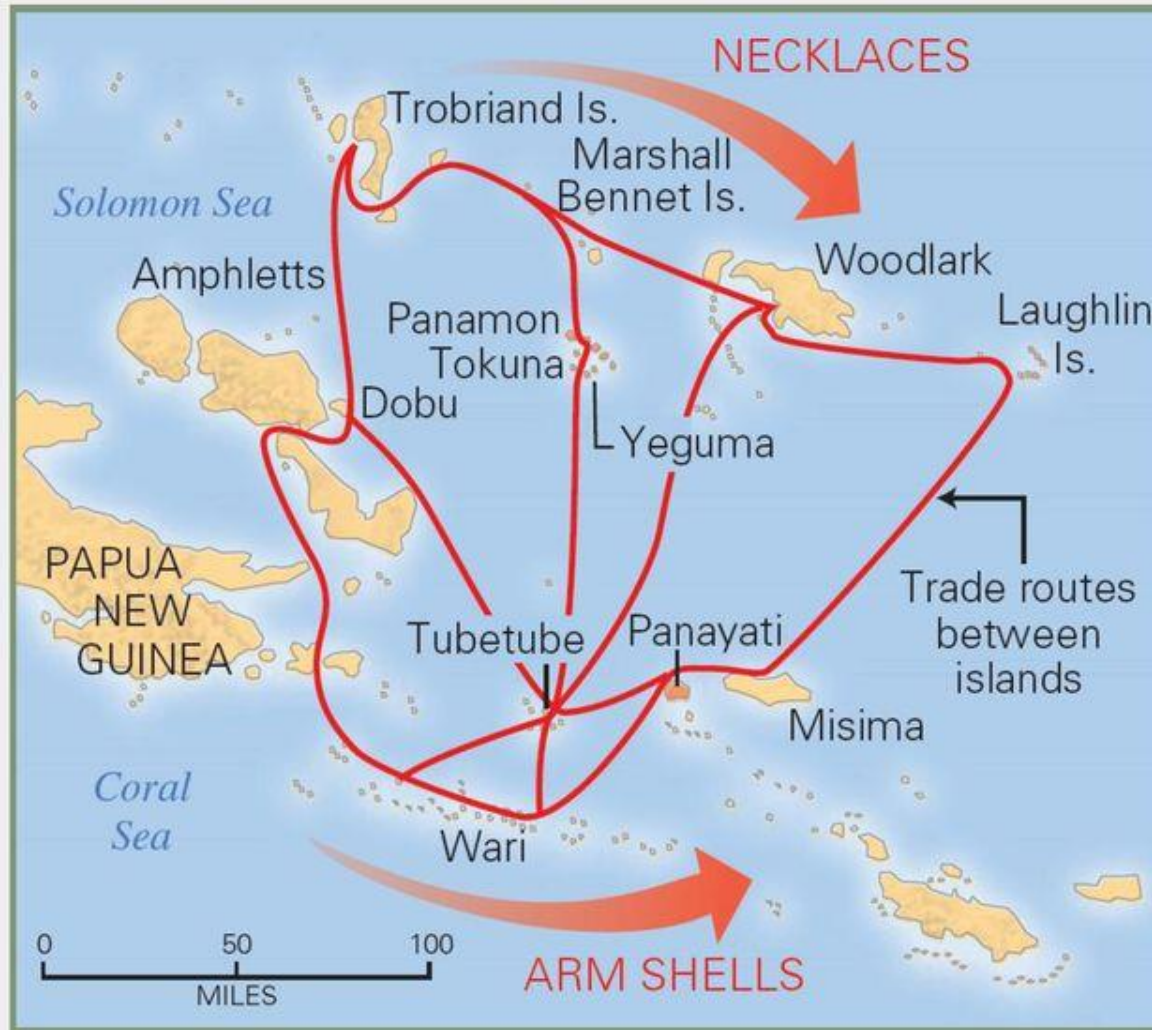
1. Traditional Economic System:

• **Characteristics:** Based on customs, traditions, and beliefs passed down through generations. Production is often tied to land and subsistence farming.

• **Example:** Many rural, developing communities.

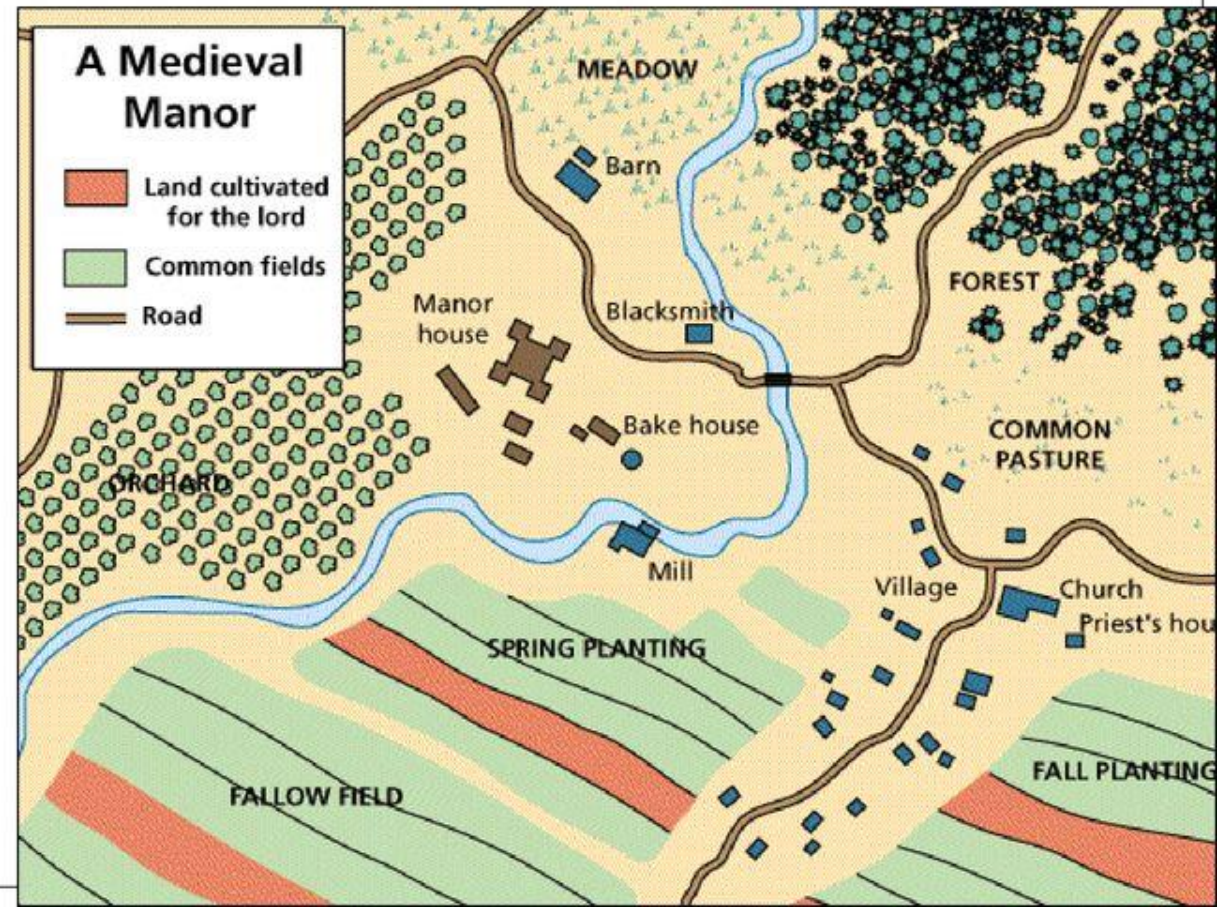


Kula Ring



Kula trading partnerships are lifelong affairs, and their details are fixed by tradition.

- Manorialism is a self-sufficient economy: everything that is necessary for life was created on the manor.



2. Command Economic System:

•**Characteristics:** Centralized planning by the government, which owns and controls most resources. The government decides what to produce, how to produce it, and who gets it.

•**Example:** Historically, the Soviet Union and other communist countries.

COMMAND ECONOMY

A command economy is an economic system where the government makes all decisions about what to produce and how to distribute goods and services.

COMMON CHARACTERISTICS

The government in a command economy owns all of the resources and means of production. It also sets prices for goods and services and determines how these things will be produced and distributed. The government may decide what goods or services will be produced, how they will be produced, and who will receive them.

EXAMPLES

- USSR (1922-1991)
- China (1949-1980s)
- Laos (1975-1980s)
- Cuba (1959-2010s)
- Vietnam (1979-1990s)
- Cambodia (1975-1979)
- North Korea (1948-Now)

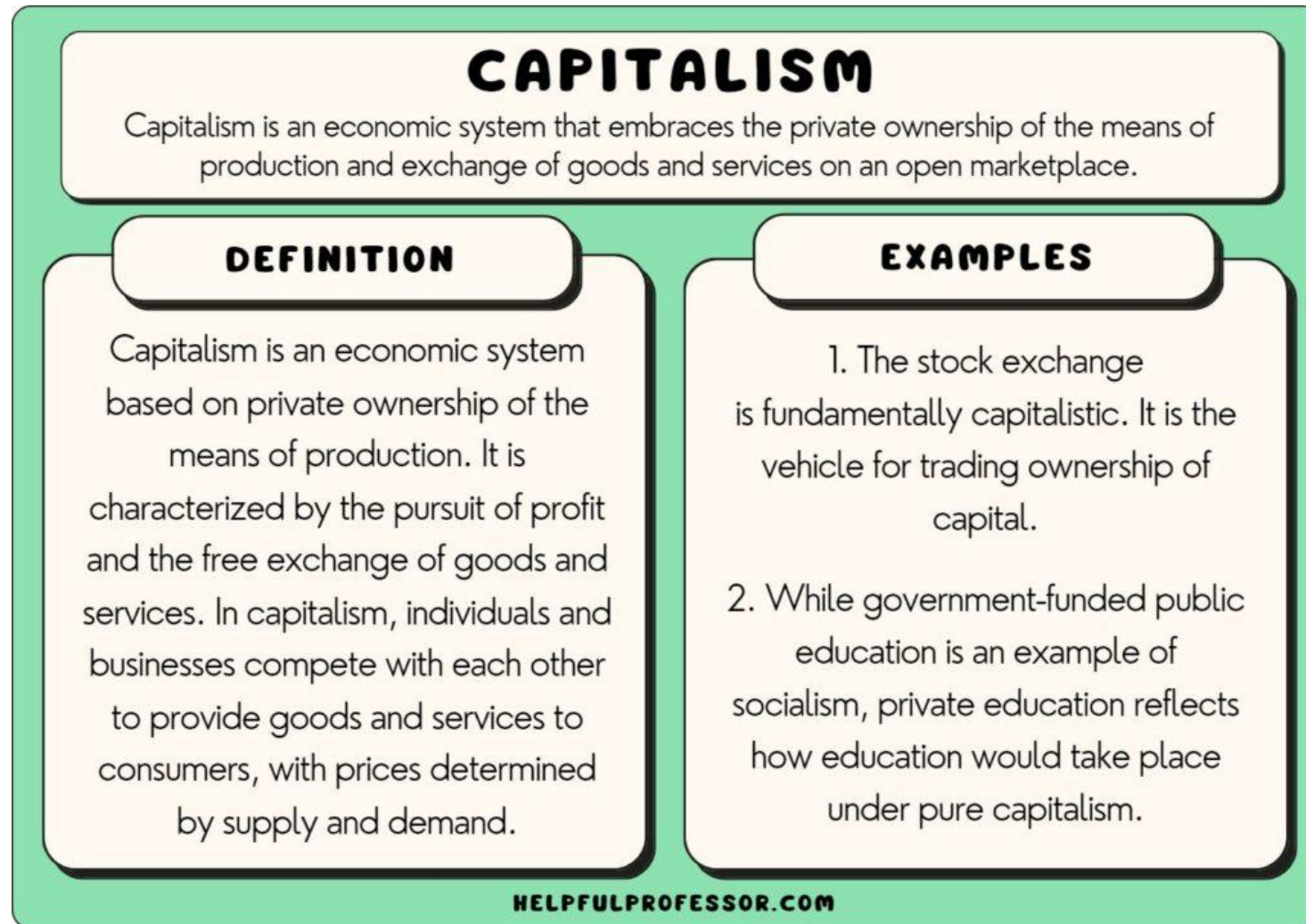
3. Free Market Economic System (aka Capitalism):

•Characteristics:

Driven by supply and demand, with prices determined by the interaction of buyers and sellers. Private ownership of resources and businesses is common. Limited government regulation or participation in the economy.

•Example:

Hong Kong, Singapore, and to a large extent, New Zealand and the United States.



4. Mixed Economic System:

- **Characteristics:** Combines elements of both market and command systems. The government may intervene to provide social safety nets, regulate industries, and promote economic stability.
- **Example:** Most modern economies, including the United States.

Mixed Economy

- Who decides what to produce?
 - businesses
- Who decides how to produce goods and services?
 - businesses, but the government regulates certain industries
- For whom are the goods and services produced?
 - consumers



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First, listen to the Roberto & Me story

In economics, freedom and equality are often viewed as potentially conflicting goals. Economic freedom refers to the ability of individuals to make their own choices about work, consumption, and investment. Economic equality aims for a more level playing field, where everyone has access to resources and opportunities. While they might seem like opposing forces, some argue that freedom is essential for economic growth and prosperity, while others believe that a certain level of equality is necessary for social stability and well-being.

Elaboration:

•**Economic Freedom:**

The Heritage Foundation defines economic freedom as the right to control one's labor and property, allowing individuals to work, produce, consume, and invest freely. Wikipedia suggests that economic freedom correlates with higher average income, higher income for the poorest, and improved living conditions. The Institute for Humane Studies highlights that economic freedom fosters innovation and creativity, leading to prosperity.

•**Economic Equality:**

- .Georgia Public Broadcasting defines economic equity as the degree to which everyone has equal opportunities to succeed or an equal share of resources. Think Big/Start Small suggests that some believe a level playing field, where everyone has equal access to wealth, already exists in some places, like Canada.

•**The Trade-off:**

- Some argue that prioritizing equality over freedom can stifle economic growth and innovation. Others argue that prioritizing freedom over equality can lead to increased inequality and social unrest.

•**Different Perspectives:**

- .Milton Friedman famously argued that a society that puts equality before freedom will achieve neither. However, some argue that true liberty can only be achieved with a democratic distribution of power and resources.

•**The Role of Government:**

- .The government's role in balancing freedom and equality is a subject of debate. Some believe that minimal government intervention is best for fostering economic freedom and growth, while others advocate for government policies to promote equality and reduce inequality.