

Part III: History of Economic Thought and Economic Systems

2 Economic Systems

Prof. Dr. Axel Gerloff
DHBW Mosbach – Campus Bad Mergentheim



Three Basic Problems of all Economic Societies

1. Allocation

2. Stabilization

müssen alle drei von economic system beantwortet werden

3. Distribution

efficiency = how to solve something the best

equity = everyone should benefit



how are the resources allocated

how do we realize baking the largest pie

1. **Problem of Allocation** (remember: size of the pie)

- **Information**

How do individuals **gather information about required goods and services, production factors of production, etc.?**

who can do what the best
what resources do we have

- **Incentives**

people respond to incentives

Sanktionen bei Bürgergeld, Gaspreisbremse

What are appropriate mechanisms to encourage positive behavior and how is inadequate performance penalized (sanctions)?

support favorable developments and sanctionize
less favorable developments

- **Coordination**

how is decided what we produce

can be done centralized or decentralized

The wants and needs are unlimited.

At the same time, resources are scarce.

How can be ensured that the most pressing needs are satisfied first?



2. **Problem of Stabilization** (macroeconomic aspect)

gesamtwirtschaftlicher Anblick

“The magic square”: magische vier-sechseck

- growth Wachstum
- full employment of resources Vollarbeit; alle Ressourcen ausgeschöpft
- price stability Preisstabilität
- balanced foreign trade (external balance) ausgeglichene Handelsbilanz (Import vs. Export)

those factors stabilize the economy



3. **Problem of Distribution** (How should the pie be divided?)


- **How** should the **outcome of the most efficient allocation** be distributed?
- **What** is a **fair** distribution?
- **Who decides** on the distribution of the earned income?

Remember:

- There is a trade **off between efficiency and equality**.
- Ernst Fehr: „Die große gesellschaftliche Frage ist, wie wir **Effizienz und Gerechtigkeit zusammen bringen**.“ (Application 1)

Command versus Market Economy



<p>centralized</p> <p>e.g. Kommunismus</p>	<p>decentralized</p>
<p>zentrale Planung der Wirtschaft</p> <p>central planning and decision making</p>	<p>markets and competition</p>
	<p>supply: profit maximization</p> <p>demand: maximization of utility</p>
<p>gouvernement decided</p> <p>Implementation through orders</p>	<p>self-interested guided</p> <p>contracts <small>freiwillige Zusammenarbeit</small></p>
<p>Planwirtschaft</p> <p>planned economy</p>	<p>Marktwirtschaft</p> <p>market economy</p>



Classification of Economic Systems

<div>property rights</div> <div>coordination</div>	private ownership	<div>owned collectively; owned by "state"</div> collectivism
decentralized planning coordination on markets	capitalistic market economy (e.g.: U.S., Japan, Germany, United Kingdom) <small>most countries</small>	socialist market economy <small>Sozialistische Marktwirtschaft</small> (e.g.: former Yugoslavia, former system of Hungary) <small>China</small> <small>es gibt unabhängige Firmen, aber die sind nicht von Familien besitzt sondern von Arbeitern und diese bestimmen durch Arbeiterräte</small>
centralized planning coordination through central planning agency	capitalistic centrally planned economy (e.g.: German war economy "Third Reich") <small>z.B. IG Farben</small> <small>gibt Firmen, aber diesen wird vorgeschrieben, was diese produzieren/tun müssen</small>	socialist centrally planned economy (e.g.: Soviet Union, <small>North Korea</small> <small>Cuba</small> , GDR) <small>former communist states</small>