



Intro to Economic Systems

What is a “market”?

What is a “command economy”?

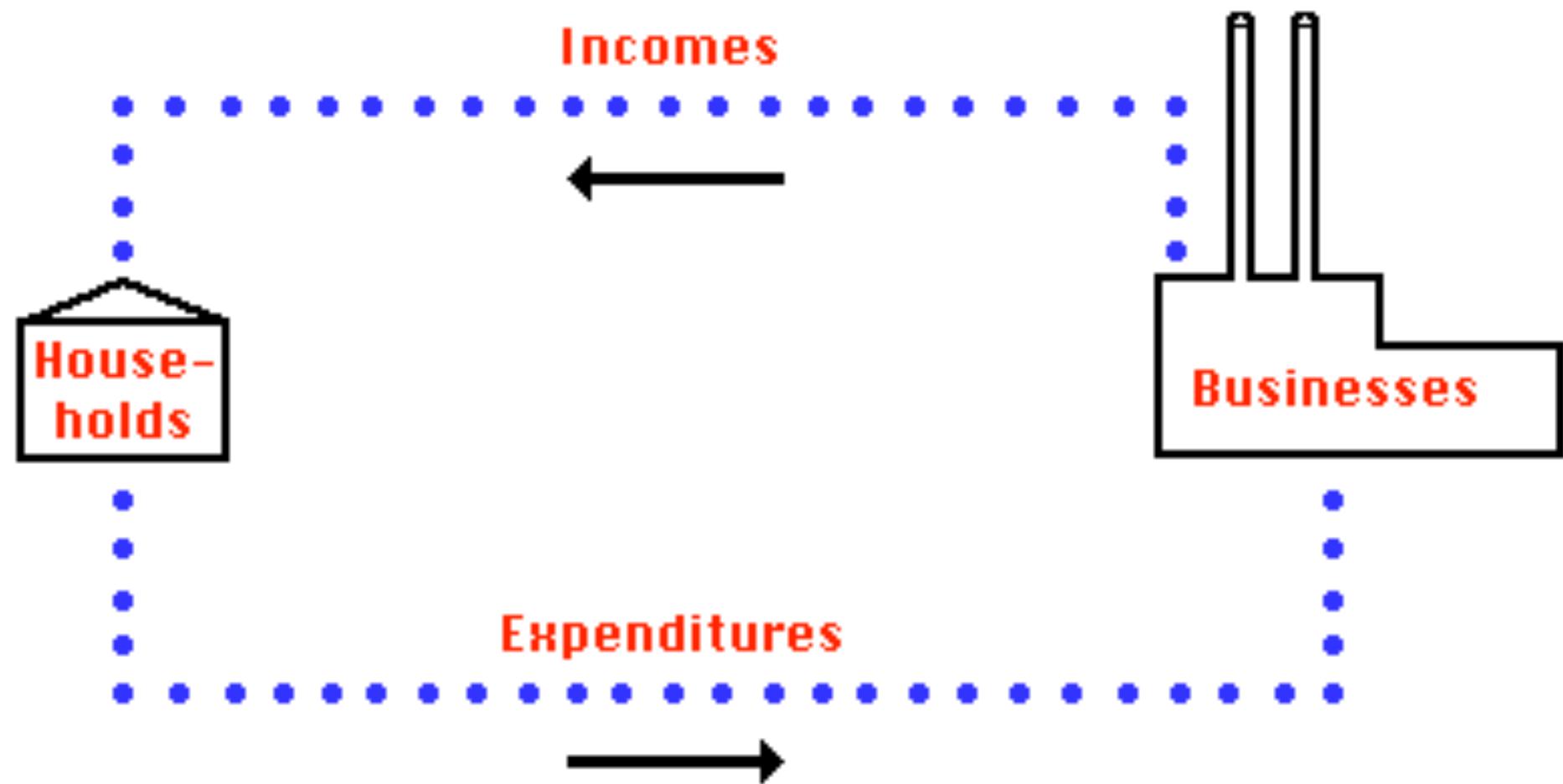
What is a “free market economy”?

What is a “market”?

- A **market** is an area where buyers & sellers can exchange economic products (“voluntary exchange”)
 - Buyers = Goods
 - Sellers = Services
- A circular flow model is often used to represent it



The Circular Flow



What are “economic systems”?



- Economic systems are ways that societies answer those 3 BIG QUESTIONS
 - What?
 - How?
 - For Whom?



- Government are often entrusted with developing these systems

When did the debate over economic systems begin?

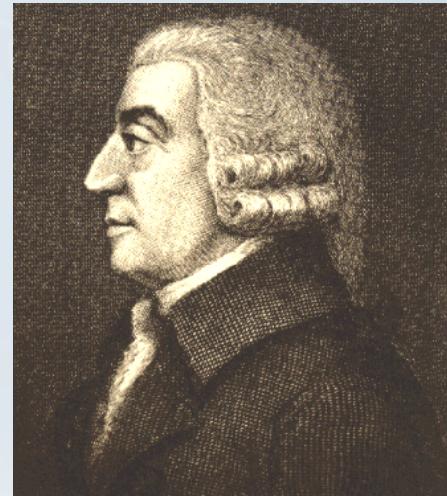
- The debate began during the Industrial Revolution
 - Late-1700's-1800's
- Questions over how involved a government should be in an economy



What were the two sides in this debate?

- Laissez –faire Capitalists

- Adam Smith
- David Ricardo



- “Laissez-faire”

- “Hands off”
- Government should not interfere with the economy
 - Let the economy work things out on its own

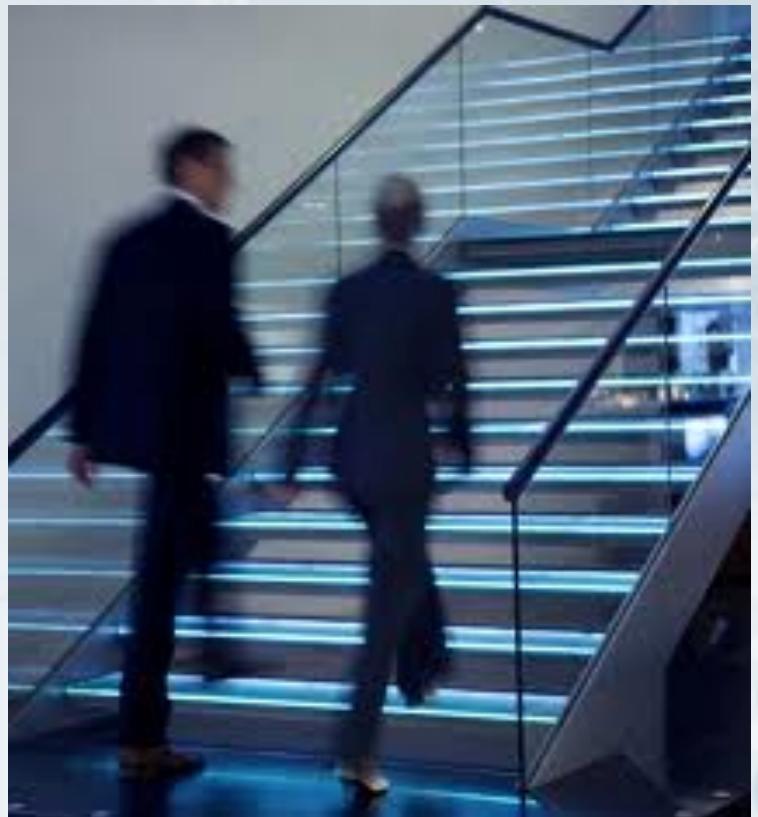


Adam Smith's “Invisible Hand”



What is “free enterprise”?

- Free enterprise (modern-capitalism) is where individuals control the resources & decide how they are used
 - Business owners
- Government plays a limited / no role



“Hands Off” Economics

Pros

- Economy moved more freely
- Best “minds” making the decisions
- Less chance of a major mistake

Cons

- No control...
- Not everyone’s needs / “voices” are heard



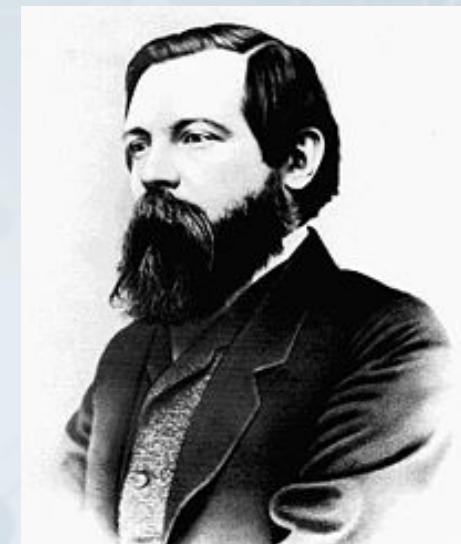
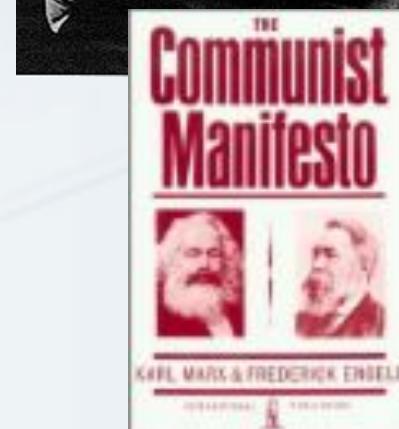
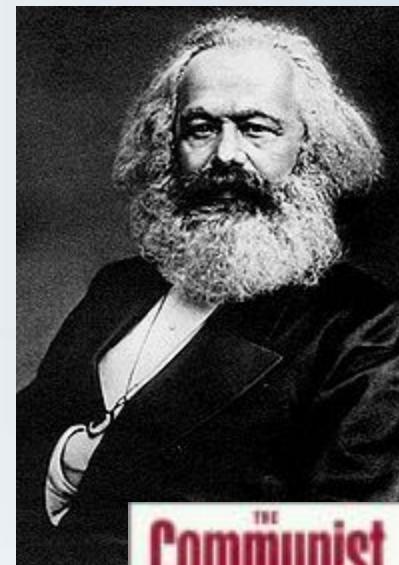
What were the two sides in this debate?

- **The Socialist Movement**
 - Charles Fourier
- Believed government should control certain factors of the economy
 - Factories, mills, railroads, etc.
- Government ownership would help workers & eliminate greedy business owners

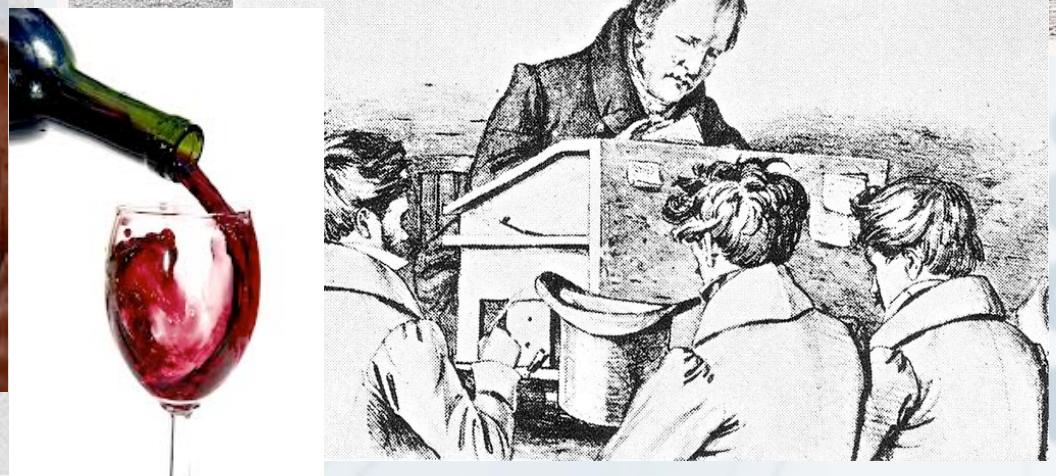
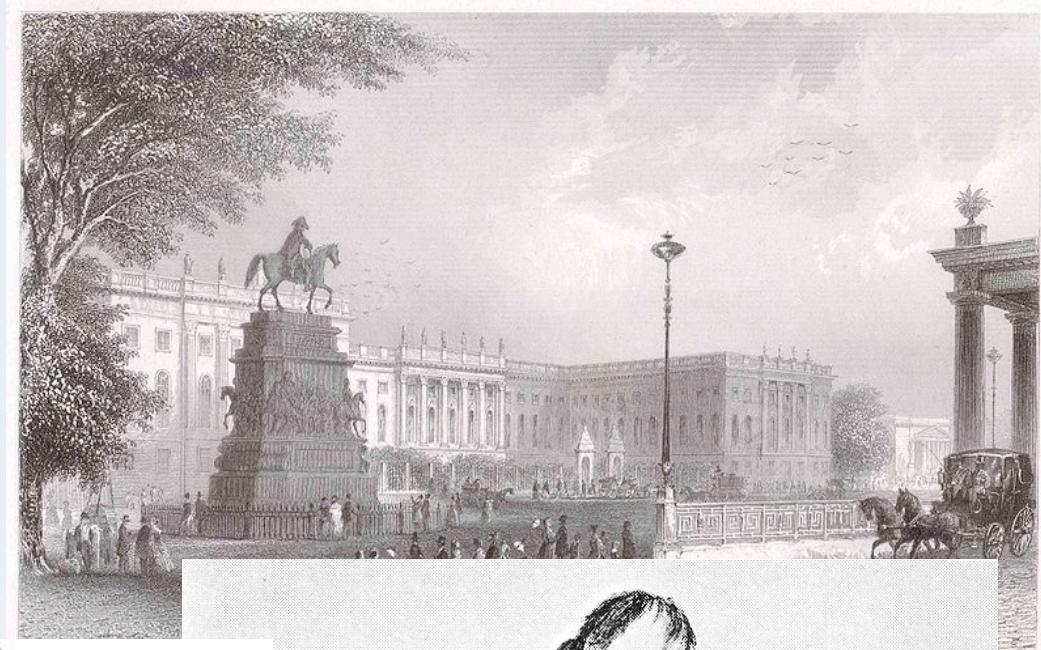


What were the two sides in this debate?

- The Marxist Movement
 - Karl Marx
 - Frederich Engels
- More radical form of Socialism
 - Believed in a war between the classes
 - Complete government control of the economy



Marx's Early Life



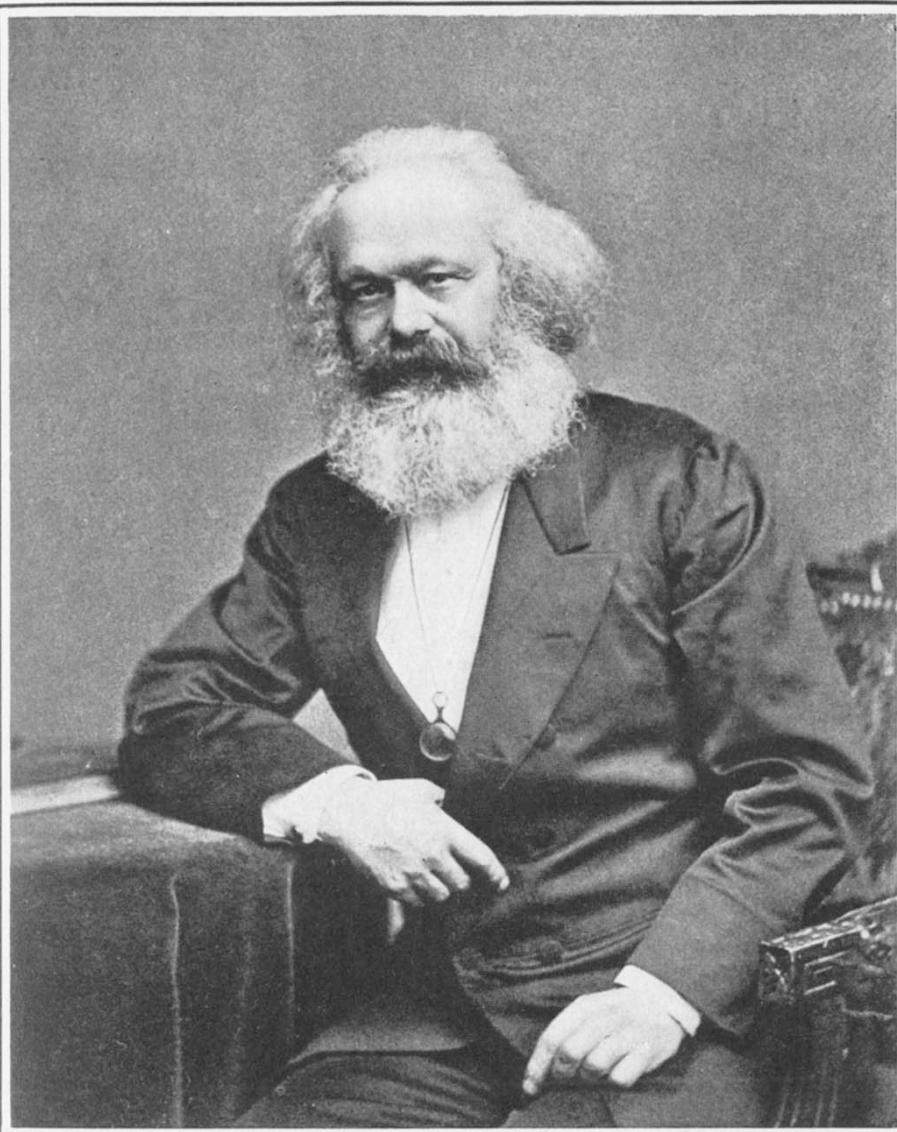
Marx and his wife, Jenny von Westphalen

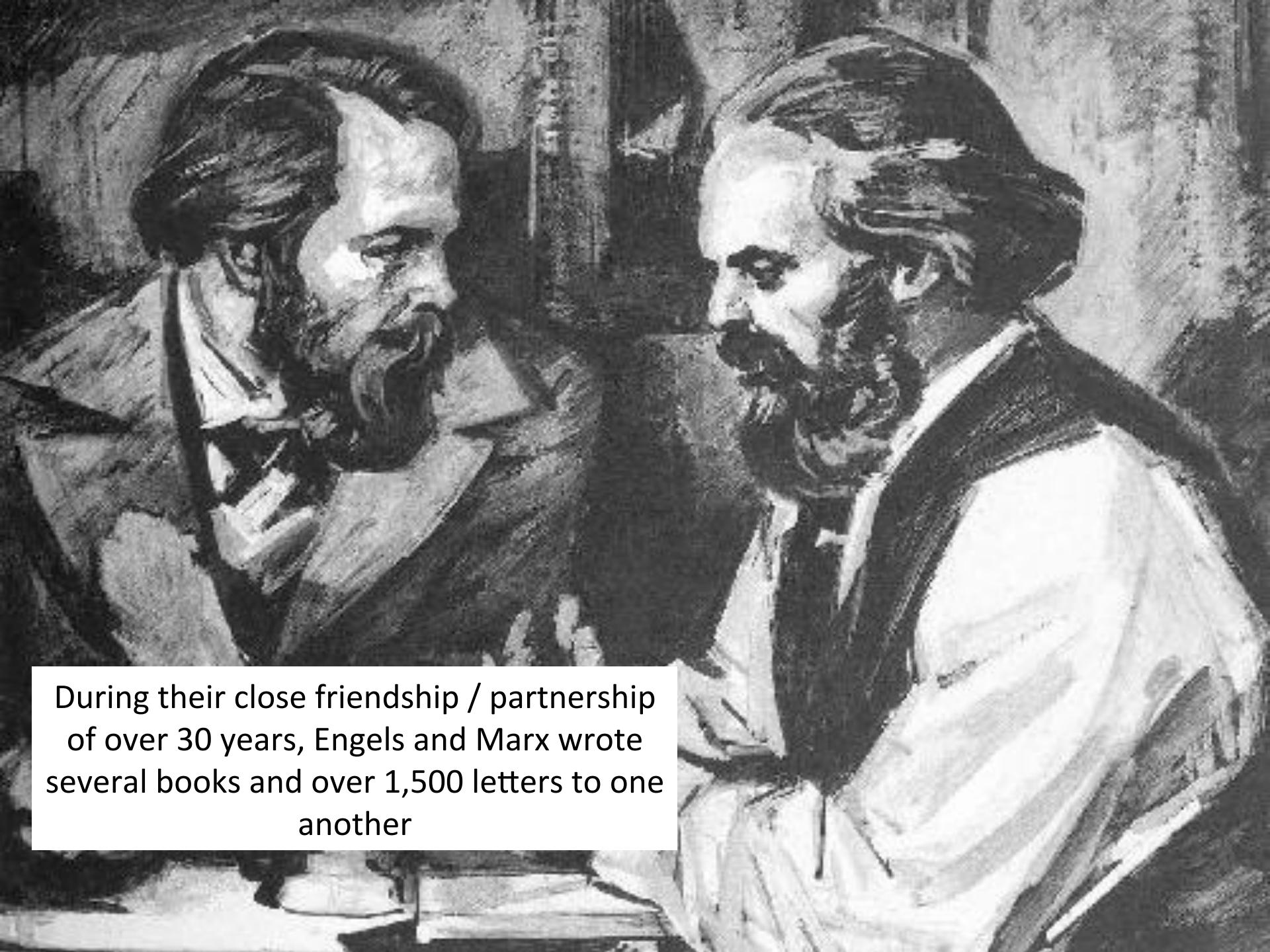


LIFE



Marx the Financial Mess...





During their close friendship / partnership of over 30 years, Engels and Marx wrote several books and over 1,500 letters to one another

What is a “command economy”?



- A command economy (planned economies) is where the government controls all aspects of the economy
 - Economic Plan = What will be produced / For whom
- Individuals have limited / no role

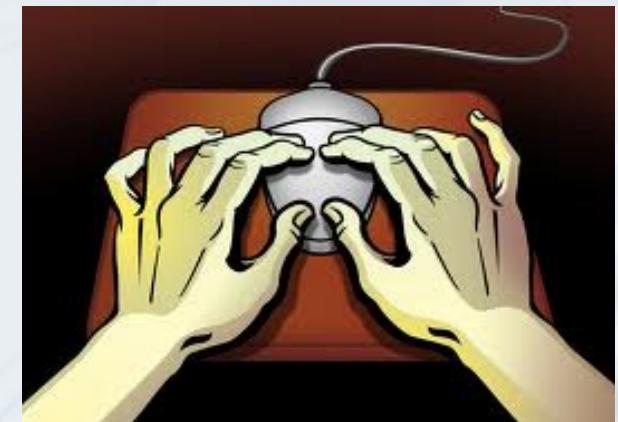
“Hands On” Economics

Pros

- More control = max. payoff!!!!
- More fairness for workers / business
- More ability to tax / enrich the gov.

Cons

- Could things get worse?
- Could government abuse such power?



Would Marx fit in?

"...what is certain to me is
that [if they are Marxists,
then] I am not [a]
Marxist..."

