

THE CHALLENGE

The Martinez family's story spans three generations and two economic systems. In 1960, Carlos Martinez fled Cuba after Castro's revolution nationalized his father's grocery business. Arriving in Miami with \$300, Carlos worked two jobs, saved aggressively, and within five years opened a bodega. Over 30 years, he built a successful business worth \$600,000. His daughter Elena expanded to three locations with 35 employees. Meanwhile, relatives who remained in Cuba faced dramatically different outcomes—earning \$30-50 monthly in government jobs with no path to wealth accumulation. Same family, same work ethic, vastly different results. The economic system made all the difference.

How does your economic system determine your opportunities for career advancement, business ownership, and wealth building?

Learning Objectives

- Define and compare capitalism, socialism, and mixed economies.
- Explain the difference between command and market economic systems.
- Understand how property rights function in different economic systems.
- Analyze how resource allocation mechanisms work in various economies.
- Evaluate how economic systems affect personal financial opportunities.

CORE CONCEPTS

Term	Definition
Capitalism	Economic system where private individuals and businesses own resources; prices determined by supply and demand; profit motive drives activity.
Socialism	Economic system where government owns most resources and makes centralized production and distribution decisions; emphasis on equality over efficiency.
Mixed Economy	System combining capitalism and socialism; most resources privately owned but government provides public goods, regulates markets, and redistributes some income.
Property Rights	Legal ownership and control over resources; foundation of market economies enabling exchange, investment, and wealth accumulation.

Market Allocation	Resource distribution determined by voluntary exchanges between buyers and sellers; prices signal scarcity and coordinate decisions.
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Background: Every society must answer fundamental economic questions: What should be produced? How? Who gets what is produced? Different economic systems answer these questions in dramatically different ways—and those answers profoundly affect your career prospects, business opportunities, and wealth-building potential. The United States operates as a mixed economy, blending market mechanisms with government intervention.

APPLY IT

PART A: ECONOMIC SYSTEM COMPARISON

Compare key features of different economic systems:

Feature	Capitalism (Market)	Socialism (Command)	Mixed Economy (USA)
Resource Ownership	85%+ private	90%+ government	75% private/25% govt
Price Setting	Market-determined	Government-set	Mostly market
Business Startup	\$300, 1 day	Prohibited	\$2,000-\$10,000
Career Freedom	Complete choice	Government assigns	High freedom
Safety Net	Minimal	Extensive (low quality)	Moderate
GDP Per Capita	\$65,000 (Singapore)	\$9,500 (Cuba)	\$70,000 (USA)

1. Based on this comparison, which system offers the most opportunity for an entrepreneur? Which provides the most security for workers? Explain.

PART B: PROPERTY RIGHTS IMPACT

Analyze how property rights affect financial decisions:

2. You have \$25,000 to start a coffee shop. With strong property rights (USA), you can sign contracts, get business loans, and keep profits. With weak property rights (failed state), your business could be seized or extorted. How does this affect your willingness to invest?

3. Explain why most mortgages and business loans are impossible in countries with weak property rights.

Key Insight: *Property rights allow you to use assets as collateral for loans. Without foreclosure rights, lenders won't lend—eliminating homeownership and business expansion for most families.*

PART C: REAL-WORLD COMPARISON

Compare outcomes of different systems in the same region:

Comparison	Market System	Command System	Difference
North vs. South Korea	\$35,000 GDP/capita	\$1,800 GDP/capita	19x higher
Chile vs. Venezuela (2023)	8% poverty rate	96% poverty rate	88 points lower
W. Germany vs. E. Germany (1990)	3x higher income	Base comparison	3x higher

4. These comparisons involve countries with similar cultures and histories but different economic systems. What does this suggest about the impact of economic systems on prosperity?

CHECK YOUR UNDERSTANDING

1. In a market economy, how are most resource allocation decisions made?

☐ A. By government central planners

☐ B. Through voluntary exchanges between buyers and sellers

☐ C. By lottery system

☐ D. By equal distribution to all citizens
2. Which statement best describes the United States economy?

☐ A. Pure capitalism with no government role

☐ B. Mixed economy combining private ownership with government intervention

☐ C. Socialist economy with government ownership

☐ D. Traditional economy based on customs
3. Why are property rights considered the foundation of market economies? Give two specific examples of how they enable wealth building.
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4. What is the main trade-off between capitalism and socialism? Why might different people prefer different balances?

5. **Reflection:** Given the U.S. mixed economy, what financial opportunities are available to you that wouldn't exist in a command economy? How will you take advantage of these opportunities?
