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family or group.

- How to produce is decided according to production methods taught by parents or elders over generations.
- Production is for use by the immediate family; surpluses are traded with others through barter
  - Barter: The trading of g&s without the use of a monetary system
- Centuries ago, this was the most common economic system in the world.
- Today, traditional economies have been found (with varying degrees of modification) in the societies of:
  - The Bedouin of the Sahara Desert
  - The Mongols of the Gobi Desert
  - The Sami people in Scandinavia
  - The Mbuti of the African rain forest

### Command Economy

- Command economy: an economic system where all production decisions are made by the government who has the power to enforce decisions throughout the economy
- The questions of what to produce, how to produce, and for whom to produce are all answered by a central authority (e.g., central planners) based on what is in the best interest of the state.
- Scarce resources are owned by the state; basic needs are provided by the state and there is an emphasis on production of capital goods over consumer goods for future growth.
- Command economies rely on a system of reward and punishment to promote increased productivity.
- The government rewards people who contribute to the state through an increased share of goods & services.
- People who do not contribute are penalized and their special privileges are denied or taken away.
- Very few "pure" command economies exist today.
- Are often politically "Communist" or dictatorships.
- Best examples:
  - Soviet Union (prior to 1991)
  - North Korea
  - China (to a certain extent)
  - Cuba (to a certain extent)

### Market Economy

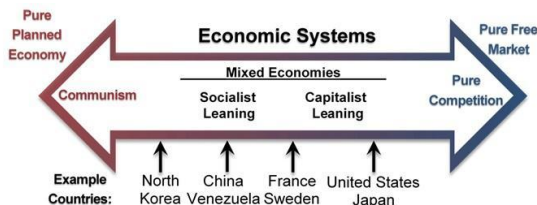
- Market economy:

Market Economy: system where economic decisions are made by actions of buyers and sellers in a marketplace.

- Since people are acting for themselves, often out of self-interest, the system is also called free-enterprise or private-enterprise.
- What to produce is determined by consumer demand.
- How to produce is determined by using the least costly and most efficient methods of production, which allows for greater profit.
- Distribution is determined by who can pay for the goods and services.
- Basic elements of market economy: private property, freedom of enterprise, profit maximization, and competition.
- Very few "pure" market economies exist today:
  - Hong Kong (under British rule) and USA are closest examples.

### Mixed Economies

- All economic decisions are made by the government AND individuals.
- Most economies fall into this category, though they usually favor the characteristics of either Market or command.
- Government usually oversees or regulates markets while individuals have a degree of choice.
- Government usually provides some goods and services.



### Analysis of Command and Market Systems

	Command Economy	Market Economy
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Command Economy		Market Economy
<b>Strengths</b>	<ul style="list-style-type: none"> <li>• Planning promotes growth &amp; capital goods prioritized more than consumer goods</li> <li>• Planning helps reduce waste</li> <li>• Equitable distribution of income and wealth</li> <li>• Planning provides stability</li> <li>• Individuals serve the state; the state provides their needs</li> </ul>	<ul style="list-style-type: none"> <li>• Maximum freedom of individual choice</li> <li>• Variety of goods and services available to consumers</li> <li>• Competition helps keep quality high and prices low</li> <li>• Profit motive provides incentive to be efficient</li> <li>• Flexibility to revise decisions as market conditions change</li> </ul>
<b>Limitations</b>	<ul style="list-style-type: none"> <li>• Bureaucratic and inflexible</li> <li>• Limits individual choice, incentive, and initiative</li> <li>• Forced to meet production quotas, managers will favour quantity over quality</li> <li>• Limited available of consumer goods</li> <li>• Little incentive to innovate</li> </ul>	<ul style="list-style-type: none"> <li>• Manipulation of consumer wants by advertising</li> <li>• Business cycles of growth and slow-down (ups and downs)</li> <li>• Income and wealth unevenly distributed.</li> <li>• Large producers can influence price</li> <li>• Over-consumption can cause resources to run out</li> </ul>