

Economic Systems

Three Basic Economic Questions

The needs and wants of individuals, families, businesses, and nations for goods and services are unlimited. The resources to satisfy these needs and wants are limited; therefore, every nation is faced with answering these questions.

- What goods and services will be produced?
- Who will be responsible for producing the goods and services?
- How will the goods and services be distributed to consumers?

There is no absolute correct way of allocating scarce resources. A particular method might prove to be ideal in one situation but less satisfactory in other situations. Each nation must select an economic system to allocate resources. There are three basic economic systems: **traditional**, **command**, and **market**.

Methods of Allocation

In a **traditional economic system**, economic decisions are based on a society's customs, culture, and way of life. Hunting, farming, gathering, and making things by hand are the methods used to meet the people's needs under this system. Tradition assumes that things do not change, and if it worked well in the past, it will work as well in the future.

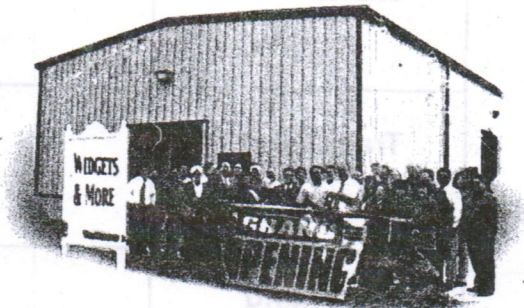


In a **command economic system**, the government makes economic decisions. The government owns most of the industries. In a command economy, it is important for producers to meet the government's assigned production **quotas**, which are the amounts of goods and services to produce. Prices are set by the government and do not change according to supply and demand.

Quota Orders
for June:

Ship by June 30.

The **market economic system** is the method used in the United States. In our "free market system," consumers and producers decide what to produce, how much to produce, and the worth of goods and services. Entrepreneurs or business owners seeing an opportunity for profits will produce and market goods or services. If entrepreneurs do a good job in anticipating the desires of the consumers, then they will make profits. If the entrepreneurs do a poor job, there will be a loss in profit.



Name: _____ Date: _____

Assessment

Matching

- | | |
|--------------------------------------|---|
| _____ 1. market economic system | a. assigned amounts of goods and services to be produced |
| _____ 2. quotas | b. consumers and producers decide what to produce, how much to produce, and the worth of goods and services |
| _____ 3. entrepreneurs | c. decisions are made according to customs, culture, and way of life |
| _____ 4. traditional economic system | d. business owners |
| _____ 5. command economic system | e. government makes economic decisions |

Fill in the Blank

- The market economic system is the method used in the _____.
- Entrepreneurs or business owners seeing an opportunity for _____ will produce and market a good or service.
- In a traditional economic system, economic decisions are made according to _____.
- In a command economy, it is important for producers to meet their government-assigned production _____.

Constructed Response

Complete the following chart.

Economic System	Advantages	Disadvantages
Market		
Traditional		
Command		