What do you mean by Economy?

How **resources** and **wealth** are managed

Economic resources include...
Lab

Physical Capital

Land

Human Capital

Labor
Given these resources, these economic questions must be answered in every society.

Who consumes goods and services that are produced?

What goods and services are produced?

How are goods and services produced?
Bead Game
TRADITIONAL ECONOMY

- Oldest economic system
- People only make enough for themselves = Subsistence
- Money is often NOT used, only trading “bartering”
- Today, most common in Less Developed Countries & Indigenous Tribes
FREE Market/Free Enterprise (AKA Laissez -Faire Capitalism)

Remember these questions:

Who consumes goods and services that are produced?
What goods and services are produced?
How are goods and services produced?

A system where the economic questions are answered by supply and demand
Characteristics of capitalism

- **Markets:** where and when buyers and sellers interact
  - Competitive markets = voluntary exchange
  - Flexible prices based on Supply and Demand

- **Entrepreneurship:** people motivated by profit and take risk, have innovation!

- **Income disparity**
  AKA wealth gap or income inequality

- **Private Property:** Individual and corporate ownership of property and industry
Socialism

In theory: An economic system in which goods and services are provided through a central system of government ownership.

Nationalization of industries.
SOCIALISM in practice is usually a Mixed Economy

**GOVERNMENT OWNERSHIP** of key parts of the economy (large industries, like energy, transportation, communications, healthcare) partially or completely

**PRIVATE BUSINESSES** (capitalism) are also a major part of the economy

Although the government is involved in the economy, the government is generally **DEMOCRATIC**
SOCIALIST ECONOMY

- People pay **HIGH TAXES**, but get many government benefits (*childcare, college, healthcare, nursing home, etc.*)

- *The goal of this system is to reduce poverty, so although there are few poor folks, there are also few wealthy people*

Examples:

- Denmark
- Finland
- Netherlands
- Canada
- Sweden
- Norway
- Ireland
- New Zealand
- Belgium
COMMUNIST ECONOMY
(aka Centrally Planned or Command Economy)

The CENTRAL GOVERNMENT makes ALL decisions about PRODUCTION of goods & services and SETS PRICES.

The GOVERNMENT also OWNS the MEANS of PRODUCTION (factories & farms) – there is NO PRIVATE OWNERSHIP.

Authoritarian or totalitarian government instead of democracy.
MODERN COMMUNIST ECONOMIES

Soviet Union under Lenin, Stalin, Khrushchev, Brezhnev. 1920s-1980s

North Korea under the Kims: Kim il-Sung, Kim Jong-il, and now Kim Jong-un. 1948-present

China since Mao Zedong - 1970s, 80s, 90s
Check your understanding with a word match in your elbow groups

You will be given 4 whiteboards. Label them:

Traditional  Communist  Capitalist  Socialist/Mixed

Step 1: define the word
Step 2: categorize the word by writing it on the appropriate whiteboard
Step 3: explain WHY the word belongs on the whiteboard you assigned it to

Make sure the same person isn’t always doing the talking in your group! Take turns defining the words

Some terms are used in more than one economic system!
Answer Key