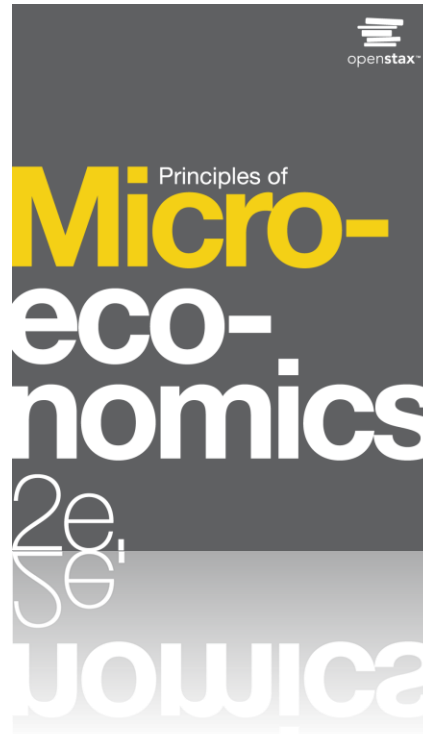


PRINCIPLES OF MICROECONOMICS 2e

Chapter 1 Welcome to Economics! PowerPoint Slideshow



1.4 How To Organize Economies: An Overview of Economic Systems



There are at least three ways that societies organize an economy:

- **1) Traditional economy** - typically an agricultural economy where things are done the same as they have always been done.
 - Oldest economic system
 - Used in parts of Asia, Africa, and South America
 - Occupations tend to stay in the family
 - What you produce is what you consume
 - Little economic progress or development

An Overview of Economic Systems



- **2) Command economy** - an economy where economic decisions are passed down from government authority and where the government owns the resources.
 - Government decides what goods and services will be produced and what prices it will charge for them.
 - The government decides what methods of production to use and sets wages for workers.
 - The government provides many necessities like healthcare and education for free.

An Overview of Economic Systems

- Examples of command economy:
 - Ancient Egypt
 - Medieval manor life
 - Communism
 - Currently, Cuba and North Korea

An Overview of Economic Systems

- **3) Market economy** - an economy where economic decisions are decentralized, private individuals own resources, and businesses supply goods and services based on demand.
- **Market** - interaction between potential buyers and sellers; a combination of demand and supply.
- **Private enterprise** - system where private individuals or groups of private individuals own and operate the means of production (resources and businesses).

Real World Economies

Most economies in the real world are mixed. They combine elements of command, traditional, and market systems.

- The U.S. economy is positioned toward the market-oriented end of the spectrum.
- Many countries in Europe and Latin America, while primarily market-oriented, have a greater degree of government involvement in economic decisions than the U.S. economy.
- China and Russia, while they have moved more in the direction of having a market-oriented system, remain closer to the command economy end of the spectrum.

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