

# EXPLORING ECONOMIC SYSTEMS



There are four types of economic systems: traditional, command, market, and mixed. Each system is primarily defined by whether the government or independent actors (like privately-owned businesses or consumers) make the decisions that impact these three questions:

- What gets produced?
- How do goods and services get produced?
- Which goods and services get produced?

Read the defining characteristics listed below. Then categorize the statements on page 2.

## Traditional Economies:

- People trade the goods and services they decide to produce for goods and services they need. This simple trade system is called a barter economy.
- Traditional barter economies were the only way to trade in earlier times (before money existed). This type of economy is still used in some small and informal communities today.

## Command Economies:

- A centralized government owns all the resources needed for production of goods and services. The government determines what to produce, how it is produced, how much to charge, and the means of distribution.
- Consumers do not have many choices. They purchase what the government produces at the price the government decides.
- Command economies are most often associated with a political philosophy called communism. North Korea and Cuba are two of the few remaining examples of command economies. China had a command economy before it made free market economic reforms in the 1980s and 1990s.

## Market Economies:

- Consumers and business owners control the production and distribution of goods and services. Decisions are motivated by self-interest and competition.
- Consumers have many choices in a market economy but fewer price controls.
- This formula for “free” (or unlimited) market economies is associated with an economic policy called capitalism.

## Mixed Economies:

- A mixture of both individually-owned businesses and government-owned businesses determines what to produce, how it is produced, how much to charge, and the means of distribution.
- Most countries, including the United States, have a mixed economic system. Pure command or pure market economies are rare. Mixed economies are flexible and perform better in today’s complex world.

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Read each statement describing an economy. Review the information on page 1 to determine which economic system the scenario is describing.

Place a **T** in the blank for traditional economy, a **C** for command, **MAR** for market, and **MIX** for mixed.

1. \_\_\_\_\_ A centralized government controls all economic activity.
2. \_\_\_\_\_ Free market principles guide the exchange of goods and services.
3. \_\_\_\_\_ This economic system relies primarily on individual labor and focuses on basic goods and services being traded in a small community.
4. \_\_\_\_\_ A combination of free market activity and centralized government controls characterize this economic system.
5. \_\_\_\_\_ In this barter economy, individuals exchange the goods and services they need for the goods and services they can provide others.
6. \_\_\_\_\_ This economic system promotes capitalism, a free market system with minimal government intervention.
7. \_\_\_\_\_ This system exists only in small, isolated communities today but was more common in earlier societies.
8. \_\_\_\_\_ This economic system has mostly privately-owned industries, but there are also a number of government-run utilities.
9. \_\_\_\_\_ North Korea is one of the few countries that has this economic system, characterized as having little or no independently-owned businesses.
10. \_\_\_\_\_ If a child at the school lunch table trades her bag of chips for another child's apple, it is an example of practices most common in this economic system.
11. \_\_\_\_\_ The United States allowing independently-owned delivery businesses and also supporting a government-run postal system is an example of this economic system.
12. \_\_\_\_\_ In this economic system, consumers do not have many choices. They purchase what the government produces at the price the government decides.

**Bonus question:** Examine the Economic Systems graphic below and write two or three sentences explaining how Venezuela's economic system compares to Japan's.

**Economic Systems**

Mixed Economies

Socialist Leaning      Capitalist Leaning

Example Countries:    North Korea    China    Venezuela    France    Sweden    United States    Japan

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