

Economic Systems

How do countries organize economic activity?

FUNDAMENTAL ECONOMIC CONCEPTS

Pure Command Economies

A system in which economic decisions about production and consumption are made by a central authority such as the government

Who decides?



What?



How?



For whom?

Central authority or government

Pure Market Economies

A system in which economic decisions about production and price are made by producers and consumers, involving little government intervention

Who decides?



What?

Consumers



How?

Producers



For whom?

Price

Advantages(+) Disadvantages(-)

Mobility (+)

Gather resources quickly and on a large scale



Basic Goods Provided (+)

Produce goods that benefit society and ensure everyone has access to basic necessities



Poor Information (-)

Are unresponsive to consumer preferences



Innovation Discouraged (-)

Decide what to produce, removing incentives



Advantages(+) Disadvantages(-)

Competition (+)

Keep costs of production and prices of goods and services low



Variety (+)

Encourage firms that differentiate their products to meet consumer wants



Wealth Disparity (-)

Can lead to poverty for individuals who lack valued knowledge and skills



Few Public Goods (-)

Do not produce as many goods that people can enjoy without paying for them



Broad Social Economic Goals

Averages for Top Five Command Economies

How are they doing?
Measuring performance on their top three goals

64

Economic Equality

Most recent Gini Index number

.631

Economic Security

2013 human development index

20.9%

Economic Stability

2013 inflation rate

Averages for Top Five Market Economies

How are they doing?
Measuring performance on their top three goals

2.8%

Economic Growth

Most recent real GDP growth rate

1.9%

Economic Efficiency

2012 labor productivity growth rate

-.26%

Economic Freedom

Change in Economic Freedom Index score, 2014-15

Sources: heritage.org/index/; <https://www.cia.gov/library/publications/the-world-factbook/>; stats.oecd.org/Index.aspx?DataSetCode=PDVGT; data.worldbank.org/indicator/SI.POV.GINI; hdr.undp.org/en/content/table-1-human-development-index-and-its-components

Economic Continuum

Pure Command Economy

Mixed Economy

Pure Market Economy

0 ← → 100

North Korea
1.3



Iran
41.8



Saudi Arabia
62.1



Australia
81.4



Cuba
29.6



India
54.6



United Kingdom
75.8



Hong Kong
89.6

The Heritage Foundation's Index of Economic Freedom measures the performance of 186 countries in 10 areas of economic freedom on a scale of 1 to 100.

- Property rights
- Government spending
- Business freedom
- Monetary freedom
- Investment freedom
- Freedom from corruption
- Fiscal freedom
- Labor freedom
- Trade freedom
- Financial freedom