

Four Economic Systems

Economic System	Who owns the resources?	Who makes the economic decisions?	Example
Socialism			X
Command			
Capitalism (Free Market)			X
Mixed			

Four Different Economic Systems

Read the passage below.

Every society must answer difficult economic questions, such as “How should people use resources?”, “What goods should people produce, and in what quantities?”, “Who should get the goods that are produced?”, and “How much should they pay for these goods?” How a society answers these questions depends on its economic system. An economic system is a way of producing and distributing goods and services. There are four major economic systems in the world today: capitalism, socialism, command economy, and mixed economy.

In a capitalist system, individuals and businesses own most of the natural and capital resources. These are the factories, farms, machinery, land, minerals, and other resources used to produce goods. Individuals and businesses also buy and sell goods freely. Goods are distributed through the market of buyers and sellers. Capitalism is the economic system in the United States.

Socialism is another type of economic system. In a socialist system, the people, through their government, own many of the resources and manage the economy. Representatives of the people decide what to produce and how much. The government then plans how to carry out these decisions. The government also distributes most goods and services, especially with regard to housing, food, medicine, and other basic necessities. Many nations today engage in limited socialist programs, such as socialized medical or education systems. However, only a few nations can be said to operate entirely under socialist principals.

The third type of economic system is a command economy. In a command economy, the government owns nearly everything that is used to produce goods. Government planners, rather than the people, make the decisions about what to produce and how to distribute it. North Korea is an example of a country with a command economy.

In a mixed economy, individuals, businesses, and the government own some parts of the economy. All of these groups play a role in making economic decisions about what to produce and how to distribute it. Russia was once part of the former Soviet Union, which had a command economy. Russia now has a mixed economy.

For discussion:

1. What is an economic system?
2. What questions need to be asked by countries when determining their economic system?
3. What are the four types of economic systems?
4. How is a command economy different from a market economy?
5. How does a mixed economy blend a command economy and a market economy?
6. Who makes economic decisions in a command economy.
7. Identify elements of a command economy.
8. Identify elements of a market economy.

9. In which economy do the people have little choice in the kinds of jobs they do, producers are not free to use resources as they wish, and people have little, if any, say in how the basic economic questions are answered.

Adapted from Scott Foresman: http://scottforesman.com/state/nv/washoe/pdfs/g6_less01.pdf