Economic Systems

SS7E5 The student will analyze different economic systems.

a. Compare how traditional, command, and market economies answer the economic questions of (1) what to produce, (2) how to produce, and (3) for whom to produce.

b. Explain how most countries have a mixed economy located on a continuum between pure market and pure command.

c. Compare and contrast the economic systems in Israel, Saudi Arabia, and Turkey.
What is Economics?

- Economics is the production, distribution, and consumption of goods and services.
- There are three main economic systems:
  - Traditional
  - Command
  - Market
- Most countries around the world have a mixed economy (a mixture of the three systems listed above).
Essential Economic Vocabulary

- Production – The process of manufacturing or growing something.
- Distribution – The delivery of products to various places.
- Consumption – The use of goods and services.
- Goods – Items that are sold.
- Services – Work that helps others. Ex: Hospital.
- Gross Domestic Product (GDP) – The total value of goods and services produced in a country every year.
The type of economic system utilized by a country (traditional, command, market, or mixed economies) answer three important economic questions:

- What to produce? (What products are produced in the country?)
- How to produce? (How are products produced in the country?)
- For whom to produce? (Who are you making the products for?)
Command Economy

- In a command economy, the government answers the three economic questions.
- Characteristics of a command economy:
  - Little individual freedom
  - No competition between businesses.
  - Businesses are not for profit.
  - Consumers have few choices.
  - Government determines jobs and sets prices of goods and services.
- Examples: No “pure” Command Economies; North Korea (closest to true Command Economy).

North Korea's leader Kim Jong Un greets students at a school in Pyongyang.
In a traditional economy, culture and customs answer the three economic questions. People do things the way they always have.

Characteristics of a traditional economy:

- Found in rural areas, such as the Amazon rainforests, parts of Southwest Asia (Middle East) and Africa.
- Technology is primitive.
- Activities are centered around the needs of the people.
- Men and women typically have different roles (Example: Hunter/gatherer)

Turkey has a mixed modern economy with a traditional economy that still accounts for about 30% of employment.
Market Economy

- In a market economy, consumers answer the three economic questions.
- An economic system based on free trade and individual choices.
- Characteristics of a market economy:
  - Resources are owned by individuals
  - Competition for profits drives this system.
  - Supply and demand determine price of goods and services.
  - No government intervention.
  - Examples: No “pure” Market Economies; Hong Kong (closest to true Market Economy).
Mixed Economy

- An economic system that combines elements of all three economic systems.
- In reality, all economies are mixed.
- For example, in the USA, the government sets quotas and tariffs to control the price of certain goods and services (command), but individuals can determine what to produce, what types of work to do, what to buy, etc. (market)
Economic Continuum

North Korea
1.5%
(Most repressed economy in the world)

World Average
57.6%

United States
76.0%
(10th most free economy)

Hong Kong
89.3%
(Highest for 19 consecutive years)

0
Pure Command

50
Mixed Economy

100
Pure Market
Economic Case Study #1 - Israel

- **What to produce?**
  - A large portion of Israel’s GDP (Gross Domestic Product) comes from high tech manufacturing, financial services (such as banking), and agriculture.

- **How to produce?**
  - Israel has substantial government ownership of business, but is gradually privatizing companies (allowing private citizens to own the company).

- **For whom to produce?**
  - Goods and services are produced for domestic and international markets based on the market price system.
Where is Israel on the Economic Continuum?

- Where would Israel fit on the Economic Continuum?
  - Slightly to the market side of center on the continuum.
  - According to the 2013 Index of Economic Freedom, Israel received an overall score of 66.9%.

<table>
<thead>
<tr>
<th>Pure Command</th>
<th>Mixed Economy</th>
<th>Pure Market</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>50</td>
<td>100</td>
</tr>
</tbody>
</table>

Israel 66.9% (51st out of 177 countries)
Economic Case Study #2 – Saudi Arabia

What to produce?
- Saudi Arabia is the world’s leading producer of oil. The Saudi government continues to invest in industrial production (factories). They are a leader in petrochemicals (chemicals made from oil), mining, and refining.

How to produce?
- Over 95% of the oil industry in the country is operated by the government. Most other major industries have significant government involvement.
- Saudi Arabia relies heavily on specialized labor from other countries. Estimates are that a third of the labor force falls in this category.
- Since the 1980s, the Saudi government has been trying to increase private ownership of business and encourage more joint ventures with private foreign companies.

For whom to produce?
- One third of Saudi Arabia’s GDP is based on exports to other countries. (This is due to the economy’s reliance on the oil sector.)
Where is Saudi Arabia on the Economic Continuum?

- Where would Saudi Arabia fit on the Economic Continuum?
  - Slightly to the market side of center on the continuum.
  - According to the 2013 Index of Economic Freedom, Israel received an overall score of 60.6%.

![Economic Continuum Diagram]

<table>
<thead>
<tr>
<th>Score</th>
<th>Description</th>
<th>Saudi Arabia</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>Pure Command</td>
<td></td>
<td></td>
</tr>
<tr>
<td>50</td>
<td>Mixed Economy</td>
<td></td>
<td>82nd</td>
</tr>
<tr>
<td>100</td>
<td>Pure Market</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Saudi Arabia: 60.6% (82nd out of 177 countries)
Economic Case Study #3 - Turkey

What to produce?
- Turkey has a diversified economy with large service, manufacturing, and agricultural sectors.

How to produce?
- Since the late 1980s, Turkey has gradually moved from a government directed economy to more private enterprise.

For whom to produce?
- One fifth of Turkey’s production is exported. The remainder is consumed by domestic consumers and the government.
Where is Turkey on the Economic Continuum?

- Where would Turkey fit on the Economic Continuum?
  - Slightly to the market side of center on the continuum.
  - According to the 2013 Index of Economic Freedom, Israel received an overall score of 62.9%.

Turkey: 62.9% (69th out of 177 countries)
Southwest Asia Economic Continuum

- **World Average**: 57.6%
- **Saudi Arabia**: 60.6% (82nd out of 177 countries)
- **Israel**: 66.9% (51st out of 177 countries)
- **Turkey**: 62.9% (69th out of 177 countries)

0: Pure Command
50: Mixed Economy
100: Pure Market