Economic Systems Graphic Organizer

**Aim: Which economic system meets the needs of the people best?**

**Topic & Theme: Economic Systems**

**Task: Break into groups of four. Each person will read about a different economic system and fill in the chart. Then, as a group, you will complete the entire chart (each person should have a completed chart!)**

**Also, keep in mind the positives and negatives for each one.**

**Traditional Economy**

The traditional economy is the oldest type of economy: the hunter-gathering societies of Pre-Neolithic times and the original Neolithic Farming Civilizations were all traditional economies. A traditional economy is a system where traditions, customs and belief systems determine its operation. In that state, this type of economic system may go unchanged for generations. Members of a traditional economy often make their own [clothing](http://www.answers.com/topic/clothing) and tools. Families work in units and practice the farming and jobs that their fathers and previous generations practiced. The people practice subsistence farming – farming enough to survive and not to profit. If they produce more [food](http://www.answers.com/topic/food) than they need, they trade the surplus. Unfortunately today, most third world (developing) countries have traditional economies and due to the use of only one major cash crop s the country’s source of income, these economies face severe poverty.

**Communist/Command Economy**

Communism is based on the philosophy of **Karl Marx.** It is both an economic, political and social ideology based on the ideas of an [egalitarian](http://en.wikipedia.org/wiki/Egalitarianism), [classless](http://en.wikipedia.org/wiki/Classlessness), [stateless](http://en.wikipedia.org/wiki/Stateless) [society](http://en.wikipedia.org/wiki/Society) based on [common ownership](http://en.wikipedia.org/wiki/Common_ownership) and control of the [means of production](http://en.wikipedia.org/wiki/Means_of_production) and property by the general population and no private ownership or enterprise. It is guided by the principle of “from each according to his ability, to each according to his need. [Karl Marx](http://en.wikipedia.org/wiki/Karl_Marx) posited that communism would be the final stage in human society, which would be achieved through a proletarian (working class) revolution. "Pure communism" in the Marxian sense refers to a classless, stateless and oppression-free society where decisions on what to produce and what policies to pursue are made [democratically](http://en.wikipedia.org/wiki/Direct_democracy), allowing every member of society to participate in the decision-making process in both the political and economic spheres of life. However, Communism has never taken its pure form and instead has always become a **Command Economy –** an economy completely regulated by the government and the Communist Party in charge of the government (this is also known as a **Socialist Economy)**. All factors of production are controlled by the government, which are then ideally equally distributed to the people. The government has the only say in all economic matters and economic questions.

**Market Economy**

The Market economy is based on the writings of **Adam Smith.** In his work, ***The Wealth of Nations,*** Smith wrote of the principle of “the invisible hand” guiding all economic forces. The invisible hand represented the needs and wants of the people -- the prices and types of [goods](http://en.wikipedia.org/wiki/Goods) and [services](http://en.wikipedia.org/wiki/Services) are determined in a [free price system](http://en.wikipedia.org/wiki/Free_price_system) set by what the people want and the **profit motive of the businesses to earn money by meeting these wants** (**the laws of supply and demand**). If the government does not interfere in business (a policy of **laissez-faire – “*leave alone”*),** then the relationship between people and entrepreneurs will guide the economy forward like an invisible hand. Market economies work on the assumption that market forces, such as supply and demand, are the best determinants of what is right for a nation's well-being. These economies rarely engage in government interventions such as price fixing, license quotas and industry subsidizations. In the real world, market economies do not exist in pure form, as societies and governments regulate them to varying degrees rather than allow self-regulation by market forces – these economies are known as **Mixed Economies.** While most developed nations today could be classified as having mixed economies, they are often said to have market economies because they allow market forces to drive most of their activities, typically engaging in government intervention only to the extent that it is needed to provide stability.

**Mixed Economy/Democratic Socialism**

This economic system developed as a response to the Industrial Revolution and in the United States picked up interest after the Great Depression. John Maynard Keynes proposed more government regulation and intervention in the economy to President FDR (which brought about **The New Deal**). This economic system emphasizes the principle of equality and usually prescribes a large role for government to intervene in society and the economy through taxation, regulation, redistribution of wealth, and public (government) ownership of business. However, in this system, small businesses are mostly privately owned. Because of this increased redistribution of wealth, the system aims to shrink the gap between the rich and poor through taxation of the rich and government price controls and regulations on large businesses.

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|  | **Traditional Economy** | **Capitalism/Free Market Economy** | **Communist/Command/Socialist Economy** | **Mixed Economy/****Democratic** **Socialism** |
| Philosopher |  |  |  |  |
| Principle and/or Philosophy System is based on |  |  |  |  |
| **What will be produced?** |  |  |  |  |
| **How** will goods and services be produced? |  |  |  |  |
| **Who** will have access to resources? |  |  |  |  |
| **Who will make decisions/****Control resources?** |  |  |  |  |

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| --- | --- | --- | --- | --- |
|  | **Traditional Economy** | **Capitalism/Free Market Economy** | **Communist/Command/Socialist Economy** | **Democratic Socialism or Mixed Economy** |
| Philosopher | none | Adam Smith | Karl Marx | John Maynard Keynes |
| Principle and/or Philosophy System is based on | Subsistence Farming – producing just what is needed | “Invisible Hand”; profit motive; Total needs/wants of people and profit motives of businesses guides economy to produce cheap and quality goods | No private property, classless society | More government control and regulation of economy; Shrink income gap |
| **What will be produced?** | Families produce what they need. | Whatever will make a profit, Free Market and “Invisible Hand” | Whatever the government wants produced | Whatever will make a profit, Free Market and “Invisible Hand” |
| **How** will goods and services be produced? | What family has traditionally done | In the most efficient manner possible | From each according to ability | In the most efficient manner possible |
| **Who** will have access to resources/products? | largest/smallest families produce in proportion | Those who can afford the resources have access/those who can afford products | To each according to need/equitable distribution | Government redistributes wealth to minimize income gap |
| **Who will make decisions/****Control resources?** | Individual family units/sometimes tribal | Private business owners | Government command | Government has some role in the regulation of businesses and income.  |