

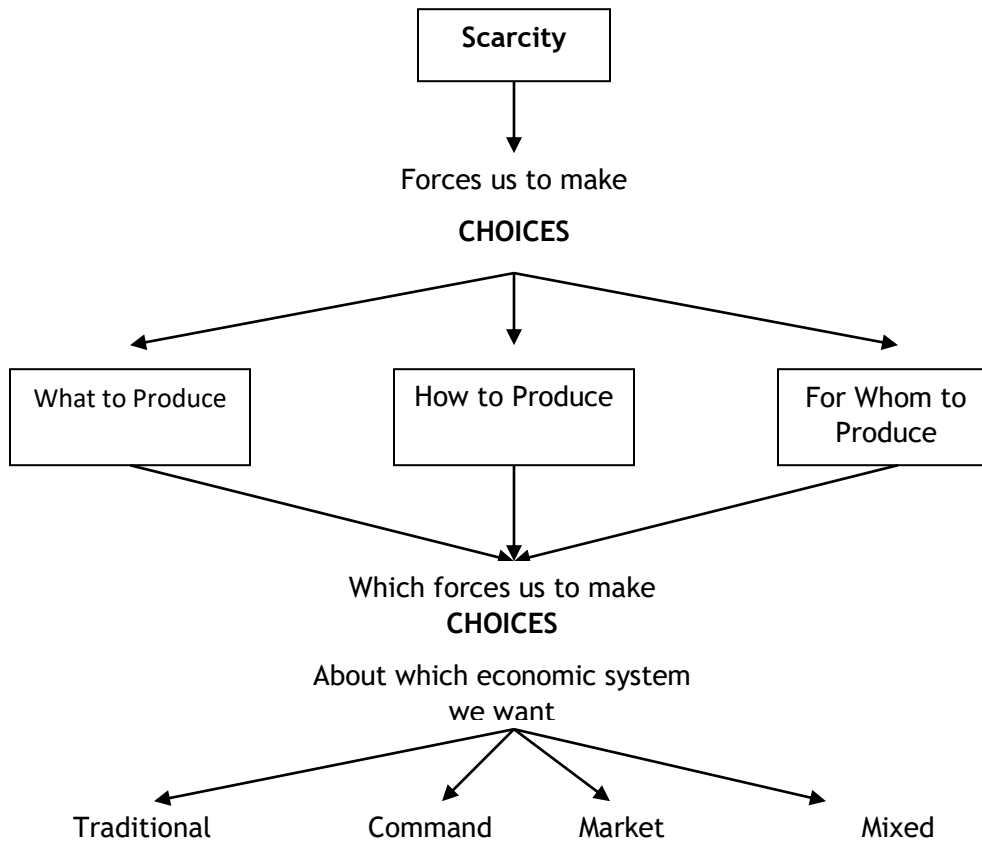
An Introduction to Economic Systems

Let's consider two things:

- 1) How are economic decisions related to personal decisions?
- 2) How are economic decisions related to political decisions?

Principle of Scarcity:

In economic theory, the limited availability of resources and goods; the excess of wants over resources.



Four Economy Types

- 1) **Traditional:** An economic system largely practiced by people in a pre-industrial stage of development. Based mostly on agriculture or fishing and on a division of labour decreed by custom and tradition.
- 2) **Market:** An economic system in which the basic questions of what, how, and for whom to produce are resolved by the interaction among buyers and sellers.
- 3) **Command (Centrally Planned):** An economic system in which the basic questions of what, how, and for whom to produce are resolved by the government, which makes all major economic decisions.
- 4) **Mixed:** An economic system that combines the market and centrally planned systems; private enterprise is subject to some regulation by government.

How do we compare countries' economies?

- 1) **Productivity:** The rate of labour output by individual workers and machinery.
- 2) **Efficiency:** Maximizing the amount of output obtained from a given amount of resources or minimizing the amount of resources used for a given output.
- 3) **Gross National Product (GNP):** The sum total of a country's annual economic production.
- 4) **Gross Domestic Product (GDP):** The total income generated within a country.
- 5) **Standard of Living:** The relative level of material goods, comfort, and well being in a society.
- 6) **Quality of Life:** The standard of living of a country measured in terms of income, available education and healthcare, political freedom, life expectancy, and other such factors.

Question:

If countries all face the same three basic economic questions, why are there so many different types of economic systems in the world?