

Comparing Economic Systems

Overview

In this lesson, students will discuss how different societies answer the same fundamental economic questions by comparing various economic systems.

Grade

10

NC Essential Standards for American History: The Founding Principles, Civics & Economics

- FP.E.1.1- Compare how individuals and governments utilize scarce resources (human, natural and capital) in traditional, command, market and mixed economies.
- FP.E.1.2- Analyze a market economy in terms of economic characteristics, the roles they play in decision-making and the importance of each role

Materials

- Economics handout, attached
- “Which type of economy?” handout, attached
- Descriptions of economic systems, attached
- Advantages and disadvantages of economic systems, attached
- Economic system cards, attached

Key Terms

- economics
- limited resources
- wants/needs
- economic system

Duration

One block period

Preparation

Students should have a basic understanding of the free enterprise system under which producers and consumers in the United States make major economic decisions.

Procedure

Making Economic Choices

1. On the board or on chart paper create a 3-column chart with the headings “WHAT,” “HOW,” and “WHO.” After students have entered the room and taken their seats, distribute the handout with the heading **ECONOMICS**, attached. First, ask students to take 2 minutes to think about the term “economics” and, in the left hand box below the header, write down anything that comes to mind when they consider the term. Encourage students to write for the full 2 minutes. If they are having difficulty, prompt them by asking them to consider some of the following questions:
 - What does this term mean?
 - What are some related terms or ideas?

- What are some examples of economic decisions people have to make?
- How does economics affect people in their daily lives?
- Who does economics affect?

2. After 2 minutes, ask for volunteers to share some of the ideas they came up with. To encourage participation, tell students that there are no wrong answers. (You may want to solicit one “thought” from each student.) Quickly jot ideas down on board as students voice what they wrote. Address similar ideas and themes as they arise. Next, have students write the definition of economics in the right hand portion of the box below the header.

Economics is the study of how people make decisions in a world where wants are unlimited but resources are limited.

3. Discuss the above definition with students. Ask them to consider what we mean by “**unlimited wants**” and “**limited resources.**” Explain that economics helps us think about the process of making decisions. In fact, economics is sometimes called “the science of decision making.” Ask students to think about the difference between needs and wants. **Needs** are things that are required for survival, such as food, clothing, and shelter. **Wants**, on the other hand, are things we would like to have—things that improve our quality of life, such as entertainment and vacations. Explain that the fundamental economic “problem” is that we, even in a country as rich as the United States, do not have enough resources to produce all of the things we both need and want. As a result, we are forced to make decisions among alternatives. Doing so requires people to consider **3 fundamental economic questions**: WHAT is produced? HOW is it produced? WHO consumes what is produced?
4. Explain the importance of each question, and why we ask them:
 - a. **WHAT is produced?** This is one of the economic choices that people in a society, both producers and consumers, are forced to make with regard to “what” should be produced in a world with limited resources. Some specific examples of this question:
 - If resources are limited, should a local government use resources to build a new school, repair an old highway, or construct a new recreation center?
 - If resources are limited, should American producers use resources to make goods for national defense or to provide services for retired people who are too old or ill to work?
 - If resources are limited, should a farmer grow wheat, cotton, or lettuce?
 - b. **HOW is it produced?** A second choice that society has to make is “how” to produce. Some specific examples of this question:
 - How should we obtain crude oil to meet our energy needs?
 - How much pollution should we allow firms to generate when producing goods?
 - How should hogs be raised before they become food?
 - c. **WHO consumes what is produced?** After goods and services are produced, a society must determine how the goods and services will be distributed among its members. Some specific examples of this question:
 - Who should receive the limited supply of flu vaccinations?
 - Who should benefit from the construction of a new school?
 - Who should a shoe manufacturer market their products toward?

Comparing Types of Economies

5. To transition into the next part of the lesson, ask students to consider who makes these decisions in the United States. Answers are likely to include consumers (people), producers (businesses), and the government. Inform students that in the United States, each of these—consumers, producers, and the government—do, in fact, play a role. However, not all **economic systems** are alike in that respect. Have

students write the definition of economic system in the right hand portion of the box below the header on their notes sheet.

An economic system is a particular set of social institutions which deals with the production, distribution, and consumption of goods and services in a particular society.

6. Explain that there are 4 types of economic systems (**traditional, command, market, and mixed**), and that while all societies face the same economic questions, the way these questions are answered determines the type of economic system of that society. Ask students to take a few minutes to read over the comparison of characteristics of each type of economy on the Economics handout. Discuss the similarities and differences between the various types of economic systems. Also, ask students to think about some of the advantages and disadvantages of each type of system. (For guidance, a list of advantages and disadvantages of each system is attached.)
7. Once students have a basic understanding of the various types of economies, distribute the half page sheet entitled "Which type of economic system?" Tell them that they are to listen carefully while you read aloud descriptions economic systems. On their handout, they are to correctly identify which type of economic system they hear described, and to briefly explain their reasoning. Read each description, giving students a minute between each to write down their answers. Discuss students' answers and explanations.
8. Divide students into mixed ability groups of 3-5, based on class size and teacher discretion. Give each group an economic system card, attached, and ask them to conceal it from other groups. Tell groups that they will have 15 minutes to write and rehearse a 2-3 minute role play which they will act out for the class, in whatever roles they choose. Their goal is to present a scene from which the rest of the class will have to identify the type of economic system the actors are "living" under. The only rule is that every group member must participate in the role play.
9. Once groups have spent 15 minutes developing their role plays, have them present to the class. After each presentation, ask students, by show of hands, which of the four economic systems they just witnessed. Further, ask students to explain how they were able to make correct identifications.

Culminating Activity

- Write a letter to the editor at the *Wall Street Journal* arguing whether a mixed economy is the economic system that should be used in the United States. Your arguments can include research about economic systems used in different counties or throughout different periods of history.

ECONOMICS

Economics:

Economic System:

Traditional	Command	Market	Mixed
<ul style="list-style-type: none"> -An economic system where tradition and custom govern economic decisions -Economic activities are usually centered toward the family, tribe, or ethnic group -Resources are allocated based on inheritance -Farming, hunting, and gathering are done largely in the same fashion as the generation before -Choices are determined by environment -Little or no use of technology 	<ul style="list-style-type: none"> -The government or other central authority makes all economic decisions -Individuals have little, if any, influence over economic functions -Resources are owned by the government -There is no competition; the purpose of business is to provide goods and services, not to make a profit -Factories are concerned with quotas -Consumers have few, if any, choices in the market place -The government sets the prices of goods and services 	<ul style="list-style-type: none"> -Economic decisions are made by individuals competing to earn profits based on supply and demand -Resources are owned by individuals -Profit, not quotas, is the motive for increasing work -Competition determines price and increases the quality of products -Individual freedom is considered very important; individuals have freedom to make economic decisions -Also called "capitalist" economy 	<ul style="list-style-type: none"> -Combines elements of pure market and command economies; Government and individuals share the economic decision making process -Government guides and regulates production of goods and services -Resources are owned by individuals -Government serves to protect both producers and consumers from unfair policies and practices

	Traditional	Command	Market	Mixed
Advantages	<ul style="list-style-type: none"> -Little friction among members because there is little competition -Individual roles are clearly defined -System is generally well-understood by participants 	<ul style="list-style-type: none"> -Can ensure stability because it does not coincide with business cycles -Serves people collectively instead of individuals; focus on equality -Distributes wealth among all of society -Products produces fulfill needs 	<ul style="list-style-type: none"> -Prices determine by market forces (supply and demand); competition brings down prices -Consumers can buy whatever they like in whatever amounts they want -Adjusts to change easily -Little government intervention -Great variety of goods and services -Capital flows to where it will get the greatest return 	<ul style="list-style-type: none"> *See advantages of command and market economic systems -Can focuses on social welfare and political freedom, as well as individual liberties
Disadvantages	<ul style="list-style-type: none"> -Does not allow for growth and development -Changes are slow -There is little social mobility (your role is determined by birth) -Does not take advantage of technology -Individuals often have no control over environmental factors 	<ul style="list-style-type: none"> -Often there is insufficient resource distribution, ie. Shortages and/or surpluses -Cannot determine societies objectives and consumer preferences as well as market can -Lack of incentives for innovation -Infringes on personal freedoms -Can often lead to corruption among state planners -Cannot easily adjust to change 	<ul style="list-style-type: none"> -Does not always provide basic needs of everyone in society, which can lead people to slip into poverty -May make it difficult for government to provide adequate social services -There are occasionally market failures -People can make choices which are harmful to themselves and to others 	<ul style="list-style-type: none"> *See disadvantages of command and market economic systems -May not lead to optimal use of resources -Government intervention can hinder progress

Which type of Economic System?

1. Type:
How do you know?:
 2. Type:
How do you know?:
 3. Type:
How do you know?:
 4. Type:
How do you know?:
-

Which type of Economic System?

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How do you know?:
4. Type:
How do you know?:

Descriptions of Economic Systems, with answers

1. State planners in Country A met to decide what the country should focus on producing. After much deliberation, they decided it would be in the country's best interest to use their limited resources to produce automobiles instead of other consumer goods, such as electronics or textiles. The state planners passed their decision down to factories, and allocated to them raw materials, workers, and other resources needed to produce automobiles. Factories were then told how much they should produce with these resources and who the final products should be shipped to.

Answer: Command economy

How do you know?: State planners decide what to produce, how to produce it, who it should be produced for.

2. In Country B, business owners decide what to produce, how much to produce, and who to produce for. The CEO of Tarheelia Audio, one of the leading audio equipment producers in the country, recently decided to increase production levels of the company's newest MP3 player model, and at the same time decrease production levels of their most popular CD player. The reason for the emphasis on MP3 players is that demand for CD players has decreased dramatically as MP3 technology has taken over the market. Simply put, there is more profit to be made in the MP3 market.

Answer: Market economy (could also be mixed, if it is assumed that government regulates industry)

How do you know?: Individuals make economic decisions; decisions made based on demand; profit motivation

3. In Country C, people rarely engage in market transactions. For the most part, they do not need to. Families grow their own vegetables and raise their own animals or hunt to get meat. Certain times get tough for people in Country C, like when the winters are particularly cold or animals change their migration patterns. For this reason, it is important that families stock up in "good times" and develop relationships with neighbors with whom they can share or trade.

Answer: Traditional economy

How do you know?: Economic activities centered around family; resources are determined by environment

4. In Country D, business owners make most economic decisions. As long as they abide by fair trade policies, they can decide what to produce, how to produce, and for whom to produce without government intervention. These decisions are made by business owners based on what happens in the market. For example, a computer manufacturer recently developed a new video gaming system, but decided to wait until closer to the holidays to release the system to the public because it believed anticipation among consumers would allow the company to charge a higher price for the system

Answer: Mixed economy

How do you know?: Business owners make economic decisions, but government can intervene

TRADITIONAL

TRADITIONAL

COMMAND

COMMAND

MARKET

MARKET

MIXED

MIXED