

12.1

Types of Economic Systems



As a Young Economist, I will be able to...

- Identify the factors of production.
- Understand the role played by the National Government in both the public and private sectors of the U.S. free enterprise system.
- Describe the four fundamental factors in a free enterprise system and understand how the Federal Government fosters competition and entrepreneurship, as well as how government regulation can serve as a restriction to private enterprise.

Capitalism & Factors of Production

Capitalism- An economic system in which individuals are free to own the means of production & maximize profits

Factors of Production- Basic resources used to make all goods and services for a nation's economy

Let's look at these factors...

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****Factors of Production**

1. LAND- We use land in agriculture, mining, forestry, and water resources

2. CAPITAL- All human-made resources that are used to produce goods & services. Such as buildings or computers

3. LABOR- Human resources putting work into the economy as jobs. Capitalists are people who own businesses or factories

4. ENTREPRENEUR- An “enterpriser” or individual with the drive to use resources to create business & deal with risks

American Free Enterprise

Free Enterprise System- Economic system characterized by private ownership of capital & investments

Free Market- A market in which buyers & sellers are free to buy & sell as they wish

These ideas let consumers, entrepreneurs, & workers enjoy freedom of choice

A Capitalist system is based on 4 fundamental factors....

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*****Capitalistic Systems**

1. Private Ownership- Individuals & companies own most of the factors of production

14th Amendment protects this & individuals own the right to own their labor

2. Individual Initiative- We are free to start & run our own businesses & dissolve those

Free society encourages exchange of ideas, innovation, & science & technological discoveries

*****Capitalistic Systems**

3. Profit Motive- We are free to benefit from investments or enterprises.

This is the “desire” to gain from business dealings & drives entrepreneurs

4. Role of Competition- Freedom to enter or start a business at anytime to create competition

Competition helps keep quality high and prices low

Law of supply and demand- determines the market price for goods & services. Prices fall, higher demands for example

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Government Regulations

Monopoly- A Firm that is the only source of a product or service. **THESE ARE BAD!**

Today we have “Trusts” that operate as monopolies controlling multiple firms

Congress also has the right to regulate commerce with foreign nations & establish bankruptcy laws

Congress also created a patent system for people to protect their ideas.

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Types of Economic Systems Part 2



As a Young Economist, I will be able to...

- Understand the relationship between U.S. government policies and the economy in a mixed economy.
- Summarize the theories of Karl Marx and identify important characteristics of socialist and communist economies and describe socialism and communism in today's world.
- Evaluate the strengths and weaknesses of capitalism versus socialism and communism.

Laissez-Faire

Author **Adam Smith** suggested that when individuals are free to pursue own private interests, then an “invisible hand” guides the general welfare.

Laissez-Faire Theory- Government should play a very limited role in society, such as...

1. Foreign relations & national defense
2. Maintenance of police & courts to protect private property & people
3. Few other functions that private enterprises cannot perform at a profit

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Mixed Economy

We have a mixed economy with private firms working within government regulation

Government regulations protect the safety of workers & consumers

Opponents argue that regulations restrict free enterprise due to high costs & testing of products

Government also promotes constructions of roads & health programs & sets loan programs

Some call these programs “ashcan socialism”

World Economies



Europe, for the most part, is more actively involved in social & economic matters

The UK has free medical care and France is engaged in more climate control

China's government owns steel mills and factories

Germany requires companies to include worker representation on boards

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Marx, Communism, Socialism

Karl Marx- Father of modern socialism & communism, was a very vocal critic of capitalism

Envisioned a society with no social classes & people would own all property in common. No exploitation of labor.

Socialism- Economic practice where benefits of economic activity should be fairly distributed

Communism- Ideology which calls for collective, or state, ownership of land & other productive property

Socialism Today

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Government would place key industries under control, but smaller companies under private

Guarantee the public welfare by providing equal distribution of necessities such as healthcare, education, & housing

Taxes in socialist nations tend to be relatively high compared to other nations

Developing nations have tended to favor this form as a means to remove foreign-owned industry

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Communism

1917, Russia completes a revolution creating the Soviet Union & places **Josef Stalin in control**

Stalin ruled the Soviet Union with an iron fist & violated various human rights issues

Collectivization- Government controls agriculture & the production of materials, Stalin issued this for more chemicals & steel

Favored heavy industry that came at cost of good consumer goods, housing, & urban services

Communism Continued

Elite classes still become an issue & privileged few can make choices

Privatization- Process of returning nationalized enterprises to private ownership.

Loss of the benefits of free enterprise, communist economies can struggle

China is a communist government, but the **Great Leap Forward allowed some elements of free enterprise to develop country.**

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Other Systems

Command Economies- Government bureaucrats plan & direct most economic activity

Countries may be slow to take advantage of new tech is they use complicated government

Command Economies deprive people of basic freedoms such as starting a business or how to use income

Some argue that communist and socialist ideas should be used in connection to free markets