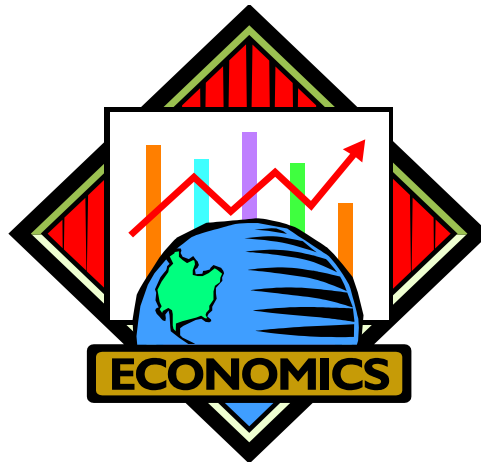
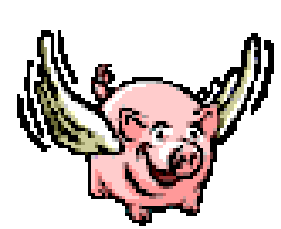


CHAPTER 2

Economic Systems and Decision Making







TRADITIONAL ECONOMIES

- **In a traditional economy, roles and economic decisions are defined by custom.**
- **Examples include the central African Mbuti, the Australian Aborigines, and northern Canada's Inuits.**



TRADITIONAL ECONOMIES

(continued)



- **The advantages of a traditional economy is that everyone knows which role to play and there is little uncertainty about WHAT, HOW, and FOR WHOM to produce.**
- **A disadvantage of a traditional economy is the discouragement of new ideas and new ways of thinking. This leads to a lower standard of living than in other societies.**

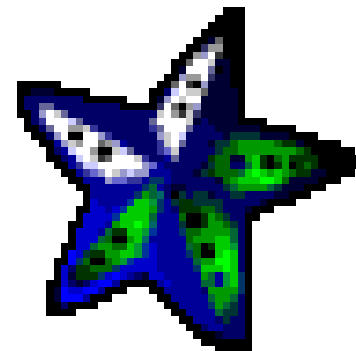






COMMAND ECONOMIES

- **In a command economy, a central authority determines WHAT, HOW, and FOR WHOM to produce.**
- **Command economies include North Korea, Cuba, and the former Soviet Union.**





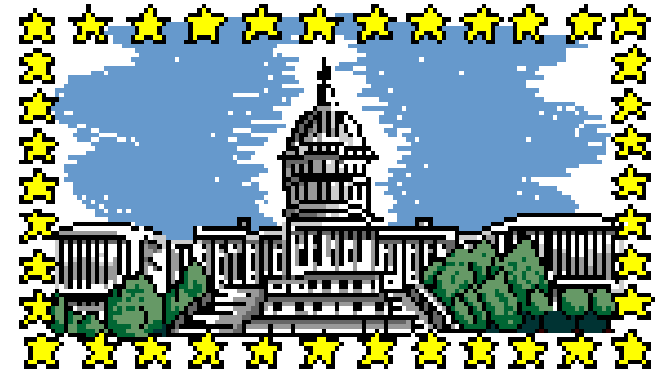
COMMAND ECONOMIES (continued)

- **There are two advantages to a command economy: the ability to drastically change direction in a relatively short period of time and many basic health and public services are available at little or no cost.**





Senator Lindsey Graham

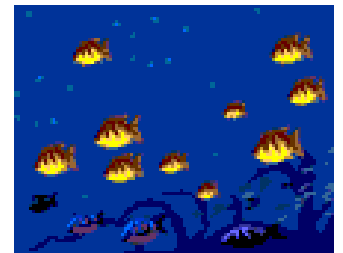




COMMAND ECONOMIES

(continued)

- **There are several disadvantages to a command economy: consumer needs may not be met; hard work is not rewarded; the necessary decision-making bureaucracy delays decisions; little flexibility to deal with day-to-day problems; and individual initiative goes unrewarded.**





MARKET ECONOMIES

- **In a market economy, producers and consumers determine WHAT, HOW, and FOR WHOM to produce. In each market transaction, the consumer’s dollar acts like a “vote,” ensuring that producers continue to bring to market the goods and services that consumers want to buy.**
- **Examples include the United States, Canada, Japan and Great Britain.**







MARKET ECONOMIES (continued)

- **There are numerous advantages to a market economy: the ability to adjust to change; the high degree of individual freedom; the small degree of government involvement; the ability to have a voice in the economy; the variety of goods and services created; and the high degree of consumer satisfaction.**





MARKET ECONOMIES

(continued)

- **Disadvantages to a market economy include the inability of the market to meet every person's basic needs.**
- **Markets also do an inadequate job of providing services such as justice, education, and health care.**
- **Citizens of a market economy must also face a high level of uncertainty and the prospect of economic failure.**





ECONOMIC AND SOCIAL GOALS

- **Economic freedom, or the freedom for people to make their own economic decisions, is a goal highly valued in the United States.**
- **Economic efficiency means that resources are used wisely and that the benefits gained are greater than the costs incurred.**

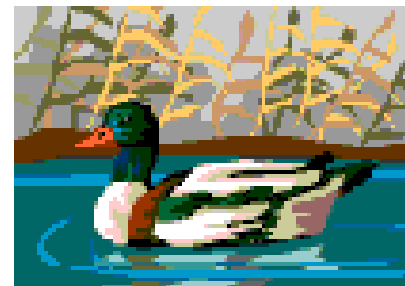


ECONOMIC AND SOCIAL GOALS



(continued)

- **Economic equity is the social goal that explains why so many people support laws against wage and job discrimination.**
- **Economic security is a social goal that results in programs to help support the sick, the elderly, and workers who have lost their jobs.**





Senator Timothy Scott

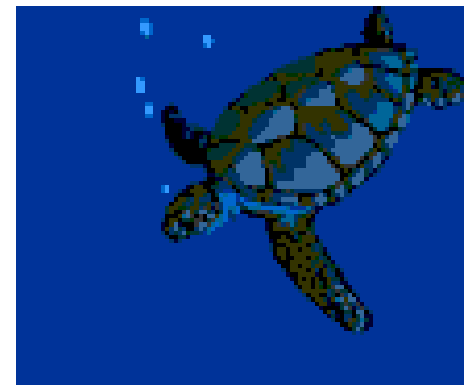


ECONOMIC AND SOCIAL GOALS



(continued)

- **Price stability, or freedom from inflation, is important to anyone trying to provide basic necessities on a limited income and for anyone planning their economic future.**



ECONOMIC AND SOCIAL GOALS

(continued)

- **Most economic systems strive for full employment, or providing as many jobs as possible.**
- **Economic growth is an important goal because populations tend to increase and existing populations tend to want more goods and services.**



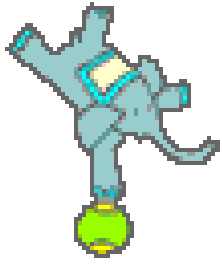




TRADE-OFFS AMONG GOALS

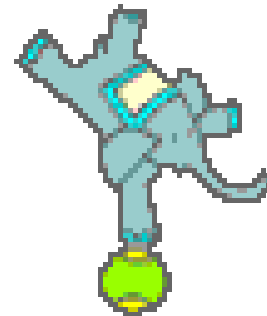
- **When goals are at odds, people must compare costs to benefits before resolving the conflict.**
- **The flexibility of the American economic system allows choices and compromises.**





COMPETITION AND FREE ENTERPRISE

- **Capitalism is a market economy in which private citizens own the factors of production. In a free enterprise system, there is limited government interference and businesses are free to compete.**





Representative Jeff Duncan
Third Congressional District of South Carolina



COMPETITION AND FREE ENTERPRISE (continued)

- **The result of voluntary exchange, in which buyers and sellers are free to decide whether or not to complete a transaction, results in both buyers and sellers believing that the good or service obtained is of more value than the money or product given up.**





COMPETITION AND FREE ENTERPRISE (continued)



- **Private property rights motivate people to succeed.**
- **The profit motive encourages entrepreneurship and is largely responsible for the growth of a free enterprise economy.**
- **Competition among sellers helps lower prices.**