

Comparative Economic Systems

As we have said, all nations must answer the question of scarcity. All nations and societies must allocate their resources in order to meet their needs. This is where the essential dilemma between unlimited wants and limited needs comes into play. We have also noted that all nations must make choices. This is a matter of *resource allocation*. When we allocate limited resources we make choices. The cost of these choices is known as *opportunity cost*. When making these choices and dealing with scarcity, resource allocation and opportunity cost nations are answering what we have previously referred to as the *three basic economic questions*. These are the questions all nations must ask when dealing with scarcity and efficiently allocating their resources. They are:

- What to produce?
- How to produce?
- For whom to produce?

Each nation and society thus must make choices and decision based upon their own values. If a society values meeting more wants and needs at the expense of freedom of choice then they may choose a system radically different than our own. Thus we have seen the creation of a variety of economic systems.

Economic systems are divided up into three basic types. These types are:

- Traditional Economic Systems
- Market Economic Systems
- Command Economic Systems

Traditional Economic System

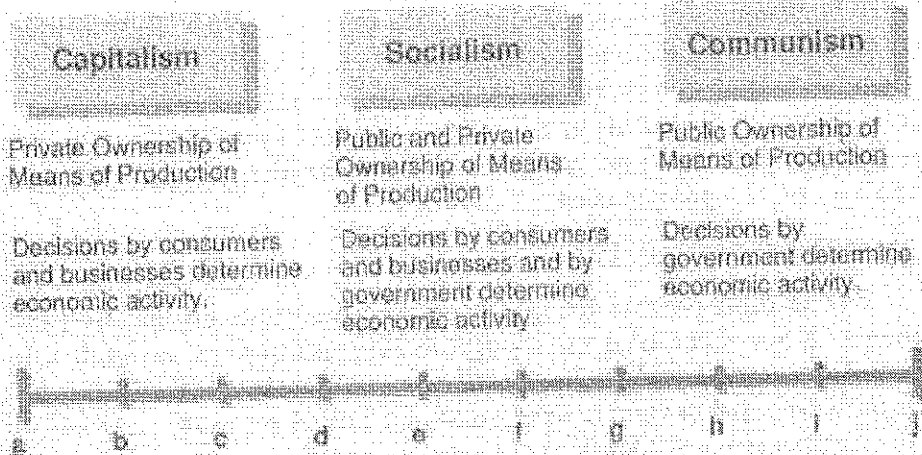
A traditional economic system is one in which people's economic roles are the same as those of their parents and grandparents. Societies that produce goods and services in traditional ways are found today in some parts of South America, Asia, and Africa. There, people living in an agricultural village still plant and harvest their own food on their own land. And the ways they produce clothing and shelter are almost exactly the same as those used in the past. Tradition decides what these people do for a living and how their work is performed.

Market Economic System

A market economic system is one in which a nation's economic decisions are the result of individual decisions by buyers and sellers in the marketplace. The U.S. has a market economic system. When you finish school, you may go to work where you choose, if a job is open. You are also free to go into business on your own. Suppose that you decide to open a business. You will risk the money that you have saved or borrowed in the hope that you will be successful. The price that you charge for your goods or services will be influenced by the prices charged by your competitors (other businesses selling the same items). The success that you have will depend on the demand by consumers for your goods. You may do extremely well. But if people do not want what you are selling, you will go out of business.

Command Economic System

In a command economic system, the main decision maker is the government. No person may independently decide to open and run any kind of business. The government decides what goods and services are to be produced. And the government sells these goods and services. The government also decides how the talents and skills of its workers are to be used.



Economic Systems Continuum

