



# UNIT 7

Decisions, Decisions



# The economic questions systems are trying to answer:

- What to produce
- How to produce
- For whom are things produced

# Free Market

- AKA - Capitalism
- An economy in which consumers and producers decide prices
- Control – consumers and producers
- No monopolies, privately owned resources, no government involvement
- Who has this economy? Ex.:
- Does this promote growth?
- Economist/theory: Adam Smith “The Wealth of Nations”



# Command



- AKA Communism
- production, investment, prices, and incomes are established by a central government.
- All factors of production controlled by Government
- People have few rights, no private property, make products for government, no incentives
- Who uses this system?
- Growth: nope
- Economist/works: Karl Marx/Communist Manifesto

# Mixed Market

- AKA: Socialist System
- Government and consumers own factors of production
- Lots of government regulation (nationalized industries) but consumers have choices (expensive)
- Questions are answered by consumers, but government has final say: Nationalized industries (airlines, natural resources)
- Who has this economy?
- Growth: Slow
- Economist/Works: Karl Marx/Communist Manifesto



# Traditional

- Barter system
- Trade goods/services for goods/services
- Control: individuals
- NO money, decisions made for survival and traditions
- Who uses/used it?
- Growth: not a factor
- No Economists



# Adam Smith

- Wrote the Wealth of Nations about Government staying out of the economy (Free Market)
- Capitalism – economic/political system in which industry is controlled by private citizens for profit
- Free Market – no government interaction in economy
- Invisible Hand – Used by Adam Smith to describe the belief that individuals seeking their economic self-interest actually benefit society more than they would if they tried to benefit society directly

# Adam Smith Cont.

- Laissez Faire – “Hands off” – government has no intervention in the economy.
- Competition – natural and inherent in Free Market. Leads to 1. More Variety 2. Better Quality 3. Lower Prices



# Karl Marx

- Communism – No private ownership, no socioeconomic class, everyone works for each other. Government owns all factors of production and makes all decisions about what is made, where people work and live
- Socialism – a transitional social state between the overthrow of capitalism and the realization of communism