

Lecture № 06

Economic Systems (1)

There are a number of ways in which a government can organize its economy and the type of system chosen is critical in shaping environment in which businesses operate.

An economic system is quite simply the way in which a country uses its *available* resources (land, workers, natural resources, machinery etc.) to *satisfy* the demands of its inhabitants for goods and services. The more goods and services that can be produced from these limited resources, the higher the standard of living enjoyed by the country's citizens.

There are three main economic systems: Planned economy, Market Economy (Free Market), Mixed economy.

1. Planned economy (Command Economy ; Centrally Planned)

Planned economies are sometimes called " *command economies*" because **the state** commands the use of resources (such as labour and factories) that are used to produce goods and services as it owns factories, land and natural resources. **Planned economies** are economies with a large amount of *central planning and direction*, when the government takes all the decisions.

The actual system employed varies from state to state, but command or planned economies have a number of common features :

✓ **Public Ownership**

In a Command Economy, economic resources are publicly owned.

- Land and all types of capital are owned by the state.

- Private ownership is limited to personal possessions and small businesses.
- Resources are publicly owned in order to distribute income and wealth more equally.

✓ **Planned Production**

Economic activities in the Command Economy are carried out according to a national plan.

- Resources are allocated to industries by the government directives.
- Economic questions are answered by the state.

✓ **Price**

In a Command Economy, prices are fixed by the government. Price does not change in response to the changes in demand and supply.

✓ **Aim of Production**

In a Command Economy, production is carried out for the welfare of the people but not to maximize profit.

A planned economy is simple to understand but not simple to operate. It does, however, have a number of advantages:

- Everyone in society receives enough goods and services to enjoy a basic standard of living.
- Nations do not waste resources duplicating production.
- The state can use its control of the economy to divert resources to wherever it wants. As a result, it can ensure that everyone receives a good education, proper health care or that transport is available.

Several disadvantages also exist. It is these disadvantages that have led to many nations abandoning planned economies over recent years:

- There is no incentive for individuals to work hard in planned economies.
- Any profits that are made are paid to the government.

- Citizens cannot start their own businesses and so new ideas rarely come forward.
- As a result, industries in planned economies can be very inefficient.

A major problem faced by command or planned economies is that of deciding what to produce. Command economies tend to be slow when responding to changes in people's tastes and fashions. Planners are likely to under produce some items as they cannot predict changes in demand. Equally, some products, which consumers regard as obsolete and unattractive, may be overproduced. Planners are afraid to produce goods and services unless they are sure substantial amounts will be purchased. This leads to delays and queues for some products.

❖ Text Based Activities

1- Answer the following questions according to the text :

- How does the government decide what goods to produce in a planned economy ?
- Who owns different sectors in a command economy?
- Can the government increase or decrease the prices of products in a command economy?
- Does the command economy prevent the monopoly of businesses?

2- Choose the right answer

- In a planned economy, who controls the factors of production?
 - The citizens
 - The entrepreneurs
 - The businesses
 - The government
- A command economy is
 - an economy in which the people control the financial management of the country
 - an economy in which only police have the power over the financial management of the country

- an economy in which the government has the power over the financial management of the country
- an economy in which the bankers have the power over the financial management of the country.
 - A characteristic of a command economy is.
- no regulation on hourly rate of pay.
- people control prices of goods and services.
- people have power over all resources.
- the state has power over all resources.
 - An advantage of a command economy is.
- people can own property
- people have access to health care services for little or no cost
- people can break the rules without consequences
- people can own businesses without government interference.

3- Match the word with its definitions :

1. Market Economy	a) The total value of all the goods and services produced in a country in a year.
2. Public	b) An economy where private citizens or groups of citizens own businesses
3. Private	c) Some businesses are government owned and others are privately owned by citizens
4. Gross Domestic Product (GDP)	d) a rise in the general level of prices
5. Mixed Economy	e) the condition that results from limited resources combined with unlimited wants
6. Inflation	f) statistic that measures overall changes in price or inflation over time
7. Scarcity	g) owned by citizens
8. Economy	h) the production, consumption, and distribution of goods and services

9. Unemployed	i) owned by the government
10. Consumer Price Index	j) people available for work who made a specific effort to find a job.