

The background is a low-poly, abstract geometric pattern. It features a color gradient that starts with bright yellow and orange on the left side, transitions through light grey and white in the upper center, and then moves into various shades of blue and dark teal on the right and bottom. The shapes are irregular polygons of varying sizes, creating a textured, crystalline appearance.

Economic Systems

Session 3

What is an economic system and what does it do?

- Economic systems are structures put in place to distribute goods and services and allocate resources to satisfy the needs and wants of consumers.
- They answer 3 important questions in the economy:
 - What to produce
 - Who to produce it for
 - How to produce it
- Answering these questions involve making decisions regarding the ownership of the 4 factors of production (Land, Labour, Capital, Enterprise).
- Should distribution be left to individuals and businesses? Should it be left to the government? Or should it be mixed?



Free Market Economies

Advantages

1. Creativity and innovation is high.
2. Consumer satisfaction is high
3. Freedom of choice is high.
4. The economy can easily react to day to day changes in demand because of the price mechanism (demand and supply).
5. Competition promotes efficiency and resource allocation is optimised.

Disadvantages

1. Poor at providing public services.
2. High levels of uncertainty.
3. Does not provide basic needs for all citizens.
4. Can easily fail if certain conditions are not met. This is called market failure. In order for a free market economy to fully succeed, consumers must be knowledgeable about what is available and can be purchased, firms must be knowledgeable about the most efficient manufacturing methods, competition must be high and resources must be mobile. If these conditions are not, the economy will fail, which is a disadvantage.
5. Firms are not incentivised to keep overall society as a priority. Will not provide services where they cannot maximise profit. Will cut corners to lower costs. Will pollute to cut costs and be wasteful (damaging the environment) if no motivation. Therefore, needs government. No pure free market.

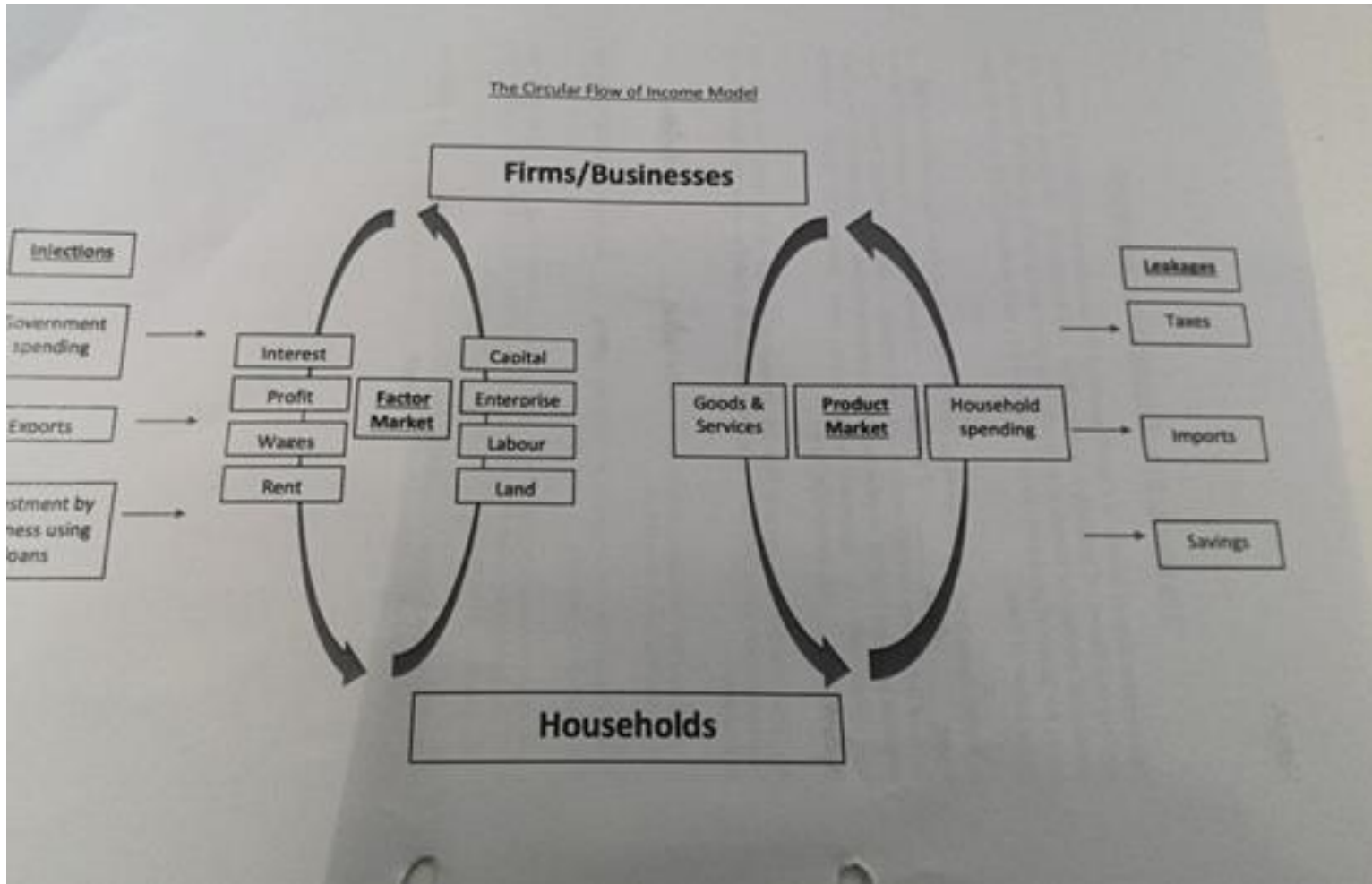
- Based on Adam Smith's philosophies of everyone working in their own self-interest to achieve overall social benefit.
- Case studies: No true free market but some are close. American industries, New Zealand, China following Deng Xiao Peng's appointment



Advantages	Disadvantages
<ol style="list-style-type: none"> 1. Can easily change general direction. For example, the USSR quickly shifted from a primary sector reliant economy that focused on agriculture, to a more industrial economy that emphasised manufacturing. This is because the government is making decisions for the entire economy. 2. There is little to no uncertainty. People know exactly where to work and companies know exactly how and how much to produce. 3. Government provides cheap (or free) public services to everyone. 	<ol style="list-style-type: none"> 1. Citizens can lose motivation and innovation. There is no incentive to be productive or creative if you are earning the same reward regardless of the quality of work you do. 2. The economy will struggle to meet short term wants and needs (day to day demand in a society) quickly. 3. Planned economies require a lot of bureaucracy and administrative work which can be slow to react. 4. Vulnerable to crises.

- Government ownership of factors of production.
- Also called a command economy. Firms are told what to produce, people are told where to work and what to consume.
- Case study: USSR, North Korea.

Planned Economy



Mixed Economy

- Mixed/Dual system:
 - Both private and public sector provided.
 - Follows circular flow of income model (see diagram)
 - Advantage: provides public services while maintaining motivation, innovation and efficiency.
 - Disadvantage: Main disadvantage is limited government intervention means there can be income inequality and corruption. Also, inflation could occur. It must be acknowledged that these disadvantages also occur in free market economies.
- Case study: every country in the world!

Other Economic Systems

- Traditional Economic System: occurs in impoverished nations.
- Ancient. Follows established trends. No division of labour or specialisation. Done in farming, basic market. Second or third world nations with primary sector.
- Done in traditional income-generating activities.
- Advantage: highly sustainable, because established procedure and no incentives to gain an advantage or cheat someone else.
- Disadvantage: No potential to create a surplus or achieve substantial growth. Stagnant and stuck in doing the same thing over and over again.