**What is an Economy?**

* An economy, or economic system, is the way a nation makes economic choices about how the nation will use its resources to produce and distribute goods and services.

**Resources:**

* Also called factors of production, are all the things used in producing goods and services. They fall into four categories:
  1. Land
  2. Labor
  3. Capital
  4. Entrepreneurship
* **Land** refers to everything on Earth that is in its natural state, or Earth's natural resources.
* **Labor** refers to all the people who work in the economy.
* **Capital** includes money needed to start and operate a business. At a national   
  level, capital includes infrastructure, such as roads, ports, sanitation facilities,   
  and utilities.
* **Entrepreneurship** refers to the skills of people who are willing to risk their time and money to run a business.

**Scarcity:**

* The difference between wants and needs and available resources.
* Example: Most underdeveloped nations have natural resources, but do not have capital or skilled labor to develop them.

**Choices:**

* Every day, in our country and countries around the world, business owners, consumers, workers, and governments must make choices about using scarce resources.
* Together these choices create an economy.
* These choices fall into three groups:

**Basic Economic Choices:**

* **WHAT** goods and services should be produced?
* **HOW** should the goods and services be produced?
* **WHO** receives and consumes these goods and services.

**Four Types of Economic Systems:**

* These questions are answered by the type of economic system a nation has. There are four types of economies:
  1. Pure Market Economy
  2. Pure Command Economy
  3. Traditional Economy
  4. Mixed Economy

***Let’s review each of these types of economies.***

**Pure Market Economy:**

* \_\_\_\_\_\_\_\_ Government involvement in economic decisions. Private firms account for all production.
* Consumers decide WHAT should be produced. They do this through the purchases they make.
* Businesses determine HOW the products will be produced. They must be competitive.
* WHO buys the products? The people with the most money are able to buy more goods and services.

**Problems:**

* Difficulty enforcing property rights - no laws.
* Some people have few resources to sell - no minimum income.
* Some firms try to monopolize markets - conspiring and price fixing.
* No \_\_\_\_\_\_\_\_\_\_\_\_\_\_ goods. - National defense?

**Pure Command Economy:**

* \_\_\_\_\_ resources are government-owned.
* One person (dictator) or a group of officials decide WHAT products are needed.
* The government runs all businesses, controls all employment, and decides HOW goods and services will be produced.
* The government decides \_\_\_\_\_\_\_\_\_ receives the products that are produced.

**Problems:**

* Consumers get low priority.
* Little freedom of choice – \_\_\_\_\_\_\_\_\_ products.
* Resources owned by the state are often wasted – individuals don’t care if they don’t own it.

**Traditional Economy:**

* Economy is shaped largely by custom or religion.
* Customs and religion determine the WHO, WHAT, and HOW.
* Example: India has a caste system which restricts occupational choice. (A social class separated from others by distinctions of hereditary rank, profession, or wealth.)

**Mixed Economy:**

* Most economies in the world today are mixed.
* Classification is based on how much government intervention there is.
* In the U.S. the government accounts for about \_\_\_\_\_\_\_\_\_ of all U.S. economic activity.

**Government Philosophies:**

* Countries also have different philosophies of government which reflect not only the laws and rules, but how individuals are treated.
* There are three political philosophies:
  1. Capitalism
  2. Socialism
  3. Communism

**Capitalism:**

* Capitalism features private ownership of businesses and marketplace competition.
* It is the same as a free enterprise system.
* The political system most frequently associated with capitalism is \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

**Socialism:**

* The main goal of socialism is to keep prices low for all people and to provide employment for many.
* The government runs key industries, generally in telecommunications, mining, transportation, and banking.
* Socialist countries tend to have more \_\_\_\_\_\_\_\_\_\_\_\_ services.

**Communism:**

* Have a totalitarian form of government; this means that the government runs everything and makes all decisions.
* Theoretically, there is no \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ in communist countries.
* The government decides the type of schooling people will receive and also tells them where to live.

**Economies in Transition:**

* Many countries are in transition from either communism or socialism to capitalism.
* \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ is a common aspect of transition from a command economy to free enterprise system. Privatization means state-owned industries are sold to private individuals and companies.