

Traditional economy



1. DEFINITION

A **rural**, or farm-based, economy that is focused upon **subsistence**, guided by **traditions**, and may use either **barter** or money (or a combination).

2. CHARACTERISTICS

- * Factors of production are controlled by the community
- * Vast majority of people are farm workers (few cities)
- * Slavery may be used
- * Landowning class (nobility)

3. EFFECTS ON JOBS & STANDARD OF LIVING

- * Jobs are less specialized (mainly in towns); most are farmers
- * Standard of living relatively low; handicraft goods more expensive

4. The 3 Questions* are usually decided by local elites (noble class).

Market economy



1. DEFINITION

A **capitalistic** economy that operates by exchange in a **free market** with *minimal** government intervention or regulation.

2. CHARACTERISTICS

- * Factors of production controlled by privately-owned businesses, who produce goods / services **for profit** (supply & demand decisions)
- * Mostly urban/suburban
- * Strong market competition
- * Private property protected

3. EFFECTS ON JOBS & STANDARD OF LIVING

- * Jobs are **highly specialized**
- * Tons of product choices (most of them manufactured)
- * Standard of living relatively high, but with income inequality

4. The 3 Questions* are decided by market-based supply & demand decisions

Command economy



1. DEFINITION

An economy in which production, investment, prices and incomes are **decided by the central government.**

4. The 3 Questions* are decided entirely by the central government (by the Communist Party leaders).

2. CHARACTERISTICS

- * Factors of production are controlled by the government (its plan, usually based on perceived national needs, not consumer desires)
- * There are usually no privately-owned businesses; technically, no private property

3. EFFECTS ON JOBS & STANDARD OF LIVING

- * Strong safety net (everyone has job, health care, education)
- * Choices & income limited for most
- * Fewer consumer goods

Mixed economy

This is the most common type of modern economic system



1. DEFINITION

An economic system combining privately owned (capitalism) and publicly owned (socialism) businesses.

2. CHARACTERISTICS

- * Some important factors of production may be **owned by the government**; many or most are privately owned
- * **More regulations** (rules for markets) = more government protections
- * Private property is protected

3. EFFECTS ON JOBS & STANDARD OF LIVING

- * **Stronger safety net** than market economies (= higher taxes), but *more product choices* than a command economy
- * High specialization of jobs and standard of living (**lower income inequality**)

4. The 3 Questions* are decided by mixture of market-based supply & demand decisions AND government decisions