Chapter 24 Lesson 2

Economic Systems and Development

Market Economies

What characteristics do market economies have?

How a Market Economy Works

Market economy: individuals act in their own self-interest to answer 3 basic questions;

1. What to produce
2. How to produce
3. For whom to produce

In a market economy no central authority makes these decisions. The economy seems to run itself. Private individuals own the factors of production. Those factors are

1. Natural resources
2. Capital
3. Labor
4. Entrepreneurship

Supply and Demand combine to set the prices of goods and services



Characteristics of a Market Economy

People are free to own property, control their own labor, and make their own economic decisions. Another feature is competition. Sellers compete with each other to attract the most buyers. Buyers compete with each other to find the best prices.

GDP (Gross Domestic Product) per capita lets us compare one nation’s economic output to another’s without regard to the size of the two economies.

Market economies do not always grow at a steady rate. They go through periods of growth and decline. During these declines people may lose their jobs. Another problem is that businesses, driven by profit, might not give workers good working conditions or high wages.

Command Economies

Government owns the factors of production. They decide what goods will be produced, and to whom they will go. Most command economies have their root in socialism. They believe that the means of production should be owned and controlled by society, either directly or through the government. In times of emergency, it can direct resources where they are needed most.

People often face shortages of goods and services and products of poor quality. T command economy also tends to grow more slowly than a market economy.

Switch to a Market Economy

1. Privatization is the process of changing state-owned businesses, factories, and farms into ones owned by private citizens.
2. People have to learn to make a decision based on prices
3. Business have to learn to be more efficient to earn a profit

Mixed Economies

Most nations are a mix between command and market economies where both markets and the government play a role. The US is considered a market-oriented economy. Free enterprise is the underlying principle of our economy.

Government’s role:

1. The government builds roads and bridges and provides schools
2. Works to make sure markets are competitive
3. Regulates some businesses