

ECONOMIC SYSTEMS

*The three systems generally considered the major economic systems in the world are:
capitalism, socialism, and communism.*

CAPITALISM has certain characteristics:

- Private ownership of property and of the means of production is the rule.
- Free enterprise – Individuals or groups of individuals can invest money in businesses or start their own businesses.
- Owners and investors take risks, but make and keep profits.
- Market economy – The type, quantity and price of goods and services produced are determined in the marketplace by supply and demand.
- Hard work, the desire to compete, and willingness to try new ideas are important for success.
- Laissez-faire – Government is to avoid interfering in the economy.

SOCIALISM has certain characteristics:

- Public (government) ownership of the major means of production and private ownership of the rest exist together.
- Individuals or groups of individuals can invest money in certain businesses or start certain types of businesses.
- Government provides for the general welfare of its people.
- Government plays an active role in the economy wherever and whenever necessary to ensure economic strength and social justice.

COMMUNISM has certain characteristics:

- Public (government) ownership of the means of production is the rule.
- All businesses are owned by the government and are to be operated for the benefit of the people.
- People must cooperate and do their fair share of work.
- The type, quantity and price of goods and services produced are determined by the government.
- All people are equal and provided with what they need.
- Eventually, there will be no social classes and government will not be necessary.

The three major economic systems in the world, then, are capitalism, socialism, and communism. The United States practices its form of capitalism. Most of the nations in the world practice some form of socialism. Although no government truly practices communism, some nations describe their economy as communist because that is their ultimate goal. Pure capitalism, socialism, and communism exist only in theory.

ECONOMIC SYSTEMS EXERCISES

Exercise #1

Read the characteristics below and decide to which economic system each belongs. Write “cap” for capitalism, “soc” for socialism, or “com” for communism.

1. _____ value cooperation and sharing the work
2. _____ value competition and hard work
3. _____ public and private ownership of the means of production
4. _____ public ownership of the means of production
5. _____ price of goods and services are determined by government
6. _____ price of goods and services are determined by the marketplace
7. _____ type of goods and services produced are determined by the government
8. _____ quantity of goods and services produced are determined by the marketplace
9. _____ quantity of goods and services produced are determined by the government and the marketplace
10. _____ government plays an active role in the economy to insure economic strength and social justice
11. _____ eventually government will not be necessary
12. _____ government should avoid interfering in the economy
13. _____ individuals and groups can start their own businesses
14. _____ government ownership of all businesses
15. _____ businesses operated for the benefit of the people
16. _____ businesses operated by owners and investors who take risks in search of profits
17. _____ the economic system of most nations of the world
18. _____ the economic system of the United States

Exercise #2

Below are some concrete examples of situations that occur under different economic systems. Look at the illustration and read the sentences that follow. Then, determine which economic system—capitalism, socialism, or communism—would most likely produce such a situation. Be prepared to defend your choice.



1. A farmer owns two cows and sells the milk to a government-owned dairy.
2. A farmer owns two cows and can sell the milk to any dairy.
3. A farmer is assigned two cows and a share of grazing land. All milk is sent to a government-owned dairy.
4. The farmer decides to sell the milk at his roadside stand.
5. The government sets the price of the farmer's milk.

6. The price of the farmer's milk is determined by the amount of milk produced and the total amount people want to buy.
7. The government determines the number of gallons of milk it wants each year and gives production goals to farmers.
8. People buy the farmer's milk from a privately-owned store.
9. People buy the farmer's milk from a government-owned store.
10. People can shop around and buy milk from the store with the lowest price.
11. Because of a terrible milk shortage, the government takes control of the dairy industry and sets milk prices.
12. The farmer decides to sell one cow and use the money to buy a bull for the purpose of breeding more cows.

Exercise #3

Read the questions below carefully. Identify the economic system described by finding the key terms and phrases that characterize capitalism, socialism, and communism. Be prepared to defend your answer.

1. The military takes over the country of Bom. The new leaders take ownership of all energy resources, which include the natural gas and electric companies. They promise citizens of Bom lower energy prices, because the government will run these industries for the benefit of the people and not for profit. All other industries will remain privately owned. What type of economic system does Bom have?
2. The government of Bom takes ownership of all industries. The citizens are promised businesses will be run for people, not for profit. Every adult is guaranteed a job. The government sets prices on goods and services. No one will be hungry or homeless. What type of economic system does Bom have?
3. Shortages of food and other products appear in Bom. Prices increase, but wages stay the same. Elections are held and new leaders are chosen. These leaders promise to return business and industry to private ownership. They encourage new businesses and promise opportunity for big profits for owners and investors. Less government involvement in the economy and competition produce more goods and services at lower prices. What type of economic system does Bom have?
4. As businesses and industries of Bom become privately owned, many people lose their jobs. More goods and services are available and prices fall, but people can't afford to buy much. Elections are held and new leaders are chosen. The new leaders take control of the largest and most important businesses and hire people. They also hire people for public service jobs such as sweeping streets and repairing public buildings. What type of economic system does Bom have?