

Econ 9: Economic Systems
Command and Market Systems
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Economic Systems.

Definition: a particular set of institutional arrangements and a coordinating mechanism—to respond to the economizing problem. The economic system has to determine what goods are produced, how they are produced, how they are allocated (who gets them), how to accommodate change, and how to promote technological progress.

- What are defining characteristics of an economic system? How do economic systems differ? (1) Who owns the factors of production and (2) the method used to motivate, coordinate, and direct economic activity.
- Two main types of Economic Systems: Command and Market System

1. Command System (i.e. “Socialism” “Communism”)

Q. Who owns the factors of production in a command economy?

Q. Who makes decisions about resource use and how things are allocated?

2. Market System (i.e. “Capitalism”)

Definition. Private ownership of resources and the use of markets and prices to coordinate economic activity.

Q. Who owns the factors of production in a command economy?

Q. Who makes decisions about resource use and how things are allocated?

Attributes of market system:

Private property: private individuals and firms own property/resource

Freedom of enterprise and choice

Self interest

Competition

Competition

Definition: Competition broadly requires two things: 1) Freedom of sellers and buyers to enter or leave markets, to further their economic self-interest. 2) Two or more buyers or sellers acting independently.