Economic Systems Review

An **economic system** is the method used by a society to determine how goods and services get produced and distributed. We can gather clues to determining under which category of economic systems a particular society belongs by answering three fundamental questions about that society:

- What goods and services get produced in this society?
- How do goods and services get produced in this society?
- How does the society determine who consumes the goods and services?

In this activity, we will consider "society" to be a particular country.

As you have already studied the four economic systems include,

Free Market: an economic system in which production and distribution decisions are determined through voluntary exchange in markets
→ In theory, a free market system has no government intervention. However, since there does not exist a country with absolutely no government in control, we consider a free market economy to have very minimal government interference.
→ Free market economic systems are characterized by a large urban work force in industry and services, high GDP per capita, high literacy and life expectancy rates, low poverty rate, low fertility rate, low to average military spending, easy access to data, and developed physical infrastructure.

Centrally Planned (Command): an economic system in which production and distribution decisions are determined by a central government
→ In theory, a command economy has complete government intervention in every aspect of production and distribution decisions. However, since there does not exist a country with absolute government control, we consider a command economy to have very significant government interference.
→ Centrally planned economic systems are characterized by state-owned firms, large shortages and surplusses of consumer goods, low growth rates, low level of exports and imports, average to high poverty rate, relatively high military spending, price fixing of goods and services, and a lack of available data.

Traditional: an economic system in which production and distribution decisions are determined by long-standing rituals and customs
→ Traditional economic systems are characterized by high poverty rate, low urbanization, large agricultural workforce, low GDP per capita, high unemployment rate, undeveloped phsical infrastructure, high fertility rate, low literacy and life expectancy, and a lack of available data.

Mixed: an economic system in which production and distribution decisions are based on free market principles, but they are guided by limited government interference
→ Mixed economic systems have many of the same features of free markets, but they include a higher degree of government expenditures.