

LESSON SIXTEEN

Core Learning Goal: 4

The student will demonstrate an understanding of the historical development and current status of economic principles, institutions, and processes needed to be effective citizens, consumers, and workers.

Expectation: 1

The student will demonstrate an understanding of economic principles, institutions, and processes required to formulate government policy.

Indicator 4.1.1

The student will evaluate how governments affect the answers to the basic economic questions of what to produce, how to produce, and for whom to produce.

Assessment Limits:

- ? *Role of government in affecting the answers to the basic economic questions in **traditional, market, command, and mixed economies.***

Overview:

This is an introductory lesson on economic systems. The students will determine how basic economic questions are answered in each system. An economics textbook may provide more information than a government textbook.

Lesson Objectives:

Students will identify the different economic systems.
Students will compare economic systems by determining how the three basic economic questions are answered in each.
Students will explain the concept of “mixed economies”.

Materials:

Government/economics textbooks

Overhead transparency: **Basic Economic Questions**

Teacher Resource: **Types of Economic Systems**

Student Handout: **Comparison Chart**

Teacher Resource: **Comparison Chart**

Useful website:

www.ncee.net/ (National Council on Economic Education)

Procedures:

1. Ask students to interpret the following quote:
“Political institutions are a superstructure on an economic foundation.”
(Vladimir Ilyich Lenin, 1913)
Discuss this relationship between government and economics.
2. Show students a transparency of **Basic Economic Questions** and discuss how our government responds to the questions.
3. Have students complete the handout **Comparison Chart** by reading information on the different economic systems in their text. Use the Teacher Resource **Types of Economic Systems** to supplement their texts.
4. Review student work, then ask:
“Does the economic system of the United States fit into one of the three basic systems?”
5. Introduce the concept of “mixed economy” and have students give examples of why the United States is a mixed economy.

Assessment of Indicator:

Have students answer this Brief Constructed Response item:

- ? What is a mixed economy?
- ? Is a mixed economy more desirable than the other economic systems? Why or why not?
- ? Include examples and details to support your answer.

Use the Social Studies Rubric to score student responses.

BASIC ECONOMIC QUESTIONS

- 1. What goods and services should be produced?**
- 2. How should the goods be produced?**
- 3. For whom should the goods be produced?**

Some textbooks refer to these economic questions:

- 1. What goods and services and how much of each should be produced?**
- 2. Who should produce them?**
- 3. How should they be produced?**
- 4. Who should share in their use?**

TYPES OF ECONOMIC SYSTEMS

Traditional System:

A pure traditional economy answers the basic economic questions according to tradition. Things are done as they were in the past based on tradition, customs, and beliefs (religious).

Examples: Certain areas in developing countries

Command System:

The individual has little influence over how the economic questions are answered in a pure command system. The government controls the factors of production and makes all decisions. This could be one person, a small group, or central planners who decide what resources to use at each step of production and the distribution of goods and services. The government even decides the role everyone will play. It guides people into certain jobs.

Examples: North Korea, Cuba

Market or Capitalist System:

Capitalism is a pure market economy. In this system the government does not intervene. Individuals own the factors of production and they decide the answers of the basic economic questions. The market is the freely chosen activities between buyers and sellers of goods and services.

Examples: the underground economy, 19th century Britain

Mixed Economic System:

Many economists doubt that “pure” economic systems ever existed. A mixed economic system contains elements of the market and command systems, with elements of traditional as well. For example, there is some private ownership in the Peoples’ Republic of China. Some private ownership also existed in the former Soviet Union.

Examples: United States, most other nations

Characteristics of the United States’ Mixed Economic System:

- ? Not all decisions are made by individuals reacting to the market.
- ? Federal, state, and local governments make laws regulating some areas of business.
- ? Public & private sectors contribute to the economy in varying proportions. For example, federal defense spending can boost the economy; the Postal Service is a quasi-governmental corporation.
- ? Government steps in to handle inequities in the system. Many social/welfare programs were created during the 1930s.
- ? Traditional celebrations like Christmas affect portions of the economy.

Comparison Chart

Directions:

Locate information about how each economic system answers the 3 basic economic questions:

	TRADITIONAL SYSTEM	COMMAND SYSTEM	MARKET SYSTEM
<i>WHAT TO PRODUCE?</i>			
<i>HOW TO PRODUCE?</i>			
<i>FOR WHOM TO PRODUCE?</i>			

Comparison Chart

Directions:

Locate information about how each economic system answers the 3 basic economic questions:

	TRADITIONAL SYSTEM	COMMAND SYSTEM	MARKET SYSTEM
<i>WHAT TO PRODUCE?</i>	By custom – whatever was produced in the past	The government decides what should be produced The government owns most of the means of production	Consumer choices dictate the success of goods/services
<i>HOW TO PRODUCE?</i>	By custom – however items were produced in the past	The government does the planning for production: factory locations, the occupations of workers and their salaries	Business leaders choose the means of production Their goal is the most efficient and profitable methods
<i>FOR WHOM TO PRODUCE?</i>	By custom – whoever usually received products will again receive them	The government controls the distribution system for goods/services: housing, transportation, consumer items and sets prices	The consumers' income determines who receives which goods/services