

ACTIVITY 6.2

Characteristics of Economic Systems

All nations have economic systems—ways of producing and distributing goods and services. Each has unique characteristics. Economic systems answer three basic economic questions: What goods and services are to be produced? How are goods and services to be produced? For whom are goods and services to be produced? Each economy has different ways to answer these questions. They include characteristics of market-oriented, command or planned, and tradition-based economic systems. Most economies are some combination of the three main types. In their pure states—which may not exist in today’s world—market, command, or traditional economies have these general characteristics.

TYPE OF SYSTEM	WHAT TO PRODUCE?	HOW TO PRODUCE?	FOR WHOM TO PRODUCE?
MARKET ECONOMY	Businesses produce goods and services that consumers are willing and able to buy for prices that will yield profits for the businesses.	Seeking profits, business owners decide what resources they will use to produce goods and services. Individuals decide what occupations they will seek in the labor market.	Finished goods and services are distributed to individuals willing and able to buy them.
COMMAND ECONOMY	A central planning authority (government agency) decides what and how much of goods and services will be produced.	A central planning authority (government agency) decides what combinations of productive resources will be used to produce goods and services. The government may assign people to jobs.	A central planning authority (government agency) decides who will receive the goods and services that are produced.
TRADITIONAL ECONOMY	The goods and services produced today are the same goods and services that were produced in previous generations.	The productive resources used are the same as in past generations. Occupations are determined largely by tradition and families.	Finished goods and services are traded within the group or distributed based on tradition.