

Economic Systems

by Sophia



WHAT'S COVERED

The entire world gets to share resources. Each country gets resources, not only from within its own borders but also from around the world. Each country then gets to decide how best to distribute those resources within their own country. What kind of economic system would you say the U.S. has? This tutorial covers an introduction to economic systems and factors of production. Our discussion breaks down as follows:

1. Factors of Production

Factors of production are merely the resources necessary to produce output. Those factors of production are split in the following way:

Factor of Production	Description
Physical resources	Tangible items that go into the production of whatever it is the business is making.
Human resources	Labor involved in making and distributing and selling that particular product or service.
Capital	Funds that the business uses to operate the business, and also to grow or expand the business.
Entrepreneurs	Special type of human resources. These are folks who help to expand and grow the business in creative ways. You could think of them like innovators if you like.
Information resources	Intangibles, like the patents and the ideas that the company has and owns that make the company who it is.



TERM TO KNOW

Factors of Production

Resources necessary to produce output.

2. Economy Systems

Economy systems are how a society chooses to distribute goods, services, and resources. We're going to discuss two broad categories of economy systems:

- Planned economy
- Market economy.



TERM TO KNOW

Economy Systems

How a society chooses to distribute goods, services, and resources.

2a. Planned Economy

The **planned economy** is where a central authority controls and chooses how to distribute resources for the production of goods and services.

Under a planned economy, we have two major types: communism and socialism.

Planned Economy	Description	Example
Communism	Government owns all business. It is the ultimate arbiter in how resources are distributed and how much gets produced. Introduced by a man named Karl Marx.	In the modern world, we see communism active in places like North Korea and Cuba.
Socialism	Government owns select businesses or pieces of the economy. Found predominately throughout Europe.	Under the National Health System in the United Kingdom, the government decides how health care is distributed among the populace. Air France and Air India are the state or flag airlines for those particular countries. In those cases, the government decides how the airline is run, how many flights they have, and what routes they're going to fly.



TERM TO KNOW

Planned Economy

A central authority controls and chooses how to distribute resources for the production of goods and services.

2b. Market Economy

The next type of economy we're going to look at is the **market economy**. This is where supply and demand dictate how to distribute resources for the production of goods and services. You might have heard this type of economy referred to as capitalism.

In this market economy, private owners are responsible for and focused on the development of wealth. Those private owners and their consumers get to drive how the market works. They control what's produced through supply from the producers and the demand from the consumers.



TERM TO KNOW

Market Economy

Supply and demand dictates how to distribute resources for the production of goods and services.

2c. Mixed Market Economy

The U.S. is a **mixed market economy**, which is a combination of planned economy and market economy. Now, the U.S. operates differently than other countries around the world. It's more laissez-faire than places like China or France.



DID YOU KNOW

Laissez-faire capitalism was an idea that was introduced by a man named Adam Smith in his book *The Wealth of Nations*.

Now, an interesting thing about markets around the world currently is the privatization of state-owned businesses in places like Sweden, France, or India, like the Air India and Air France example from before. What you see now is an increased tendency to divest those businesses from the government and put them into private hands.

➞ **EXAMPLE** The Lufthansa Airlines from Germany was completely state-owned up until 1994, at which point the government divested itself from the airline, and now it is run as a private company.



TERM TO KNOW

Mixed Market Economy

A combination of a planned economy and market economy.



SUMMARY

Today we learned about **factors of production**, those resources that we use--intangible and tangible--to produce output from a company. We also looked at different types of **economy systems**, including the two main categories of economy systems: **planned economy** and **market economy**. Lastly, we touched upon the economic system of the U.S., which is a **mixed market economy**. This a combination of planned and market economy.

Good luck!

Source: ADAPTED FROM SOPHIA INSTRUCTOR JAMES HOWARD



TERMS TO KNOW

Economy Systems

How a society chooses to distribute goods, services, and resources.

Factors of Production

Resources necessary to produce output.

Market Economy

Supply and demand dictates how to distribute resources for the production of goods and services.

Mixed Market Economy

A combination of a planned economy and market economy.

Planned Economy

A central authority controls and chooses how to distribute resources for the production of goods and services.