

Types of economic systems and law of it is development

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What is an Economy?

- An **economy**, or economic system, is the way a nation makes economic choices about how the nation will use its resources to produce and distribute goods and services.

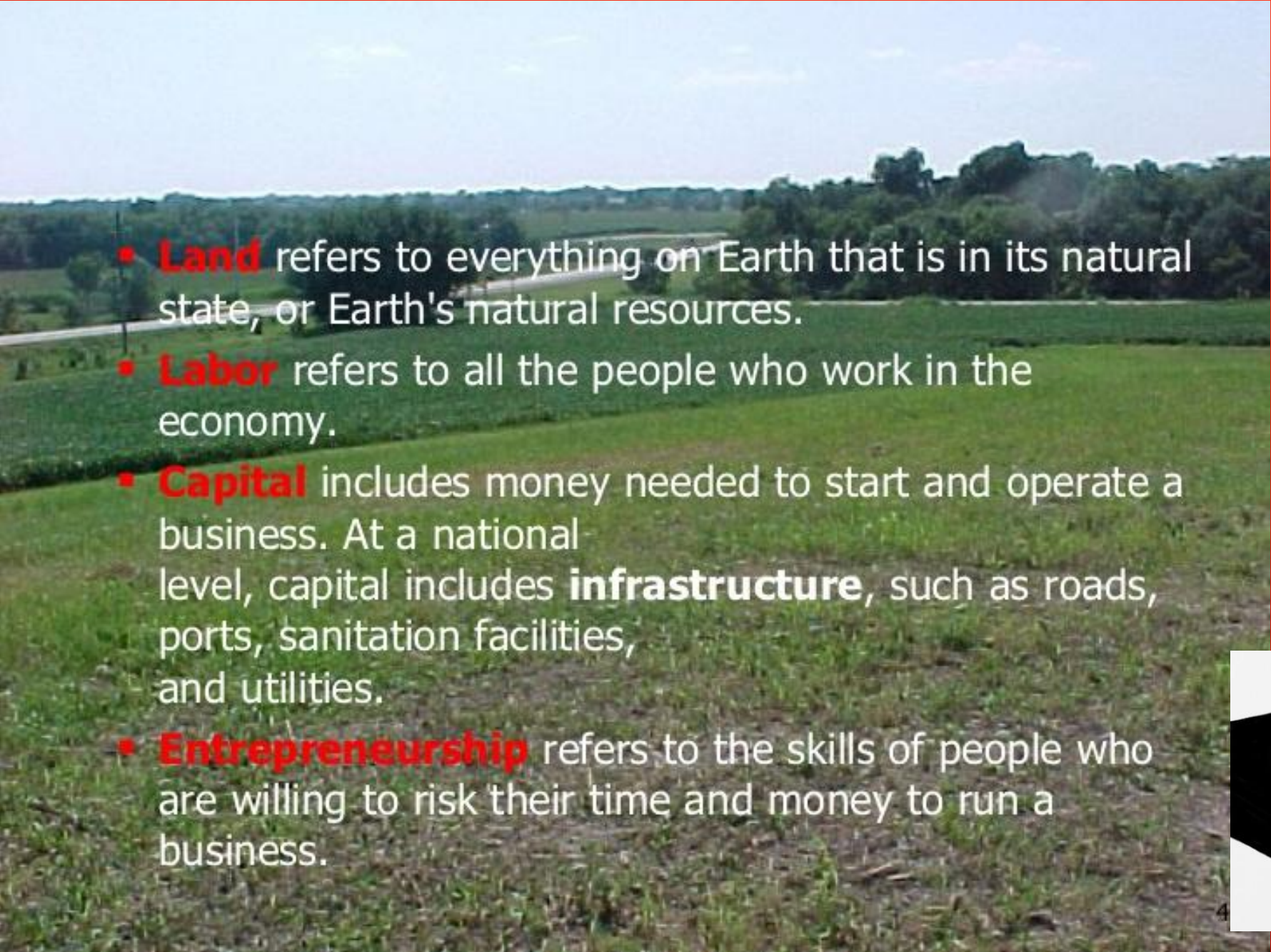


Resources

- Also called factors of production, are all the things used in producing goods and services. They fall into four categories:

1. Land
2. Labor
3. Capital
4. Entrepreneurship



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- **Land** refers to everything on Earth that is in its natural state, or Earth's natural resources.
 - **Labor** refers to all the people who work in the economy.
 - **Capital** includes money needed to start and operate a business. At a national level, capital includes **infrastructure**, such as roads, ports, sanitation facilities, and utilities.
 - **Entrepreneurship** refers to the skills of people who are willing to risk their time and money to run a business.





Scarcity

- The difference between wants and needs and available resources.
- **Example:** Most underdeveloped nations have natural resources, but do not have capital or skilled labor to develop them.





Choices

- Every day, in our country and countries around the world, business owners, consumers, workers, and governments must make choices about using scarce resources.
- Together these choices create an economy.
- These choices fall into three groups:





Basic Economic Choices:

- **WHAT** goods and services should be produced?
- **HOW** should the goods and services be produced?
- **WHO** receives and consumes these goods and services.



Four Types of Economic Systems:

- These questions are answered by the type of economic system a nation has. There are four types of economies:
 1. Pure Market Economy
 2. Pure Command Economy
 3. Traditional Economy
 4. Mixed Economy

Let's review each of these types of economies.



Pure Market Economy

- NO government involvement in economic decisions. Private firms account for all production.
- **Consumers** decide **WHAT** should be produced. They do this through the purchases they make.
- **Businesses** determine **HOW** the products will be produced. They must be competitive.
- **WHO** buys the products? The people with the most money are able to buy more goods and services.



Problems



- Difficulty enforcing property rights - no laws.
- Some people have few resources to sell - no minimum income.
- Some firms try to monopolize markets - conspiring and price fixing.
- No public goods. - national defense?





Pure Command Economy

- All resources are government-owned.
- One person (dictator) or a group of officials decide **WHAT** products are needed.
- The **government** runs all businesses, controls all employment, and decides **HOW** goods and services will be produced.
- The **government** decides **WHO** receives the products that are produced.





Problems



- Consumers get low priority.
- Little freedom of choice – few products.
- Resources owned by the state are often wasted – individuals don't care if they don't own it.



Traditional Economy

- Economy is shaped largely by custom or religion.
- Customs and religion determine the **WHO, WHAT, and HOW.**
- Example: India has a **caste system** which restricts occupational choice. (A social class separated from others by distinctions of hereditary rank, profession, or wealth.)

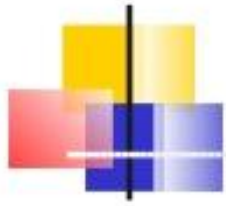




Mixed Economy

- Most economies in the world today are **mixed**.
- Classification is based on **how much government intervention** there is.
- In the U.S. the government accounts for about 1/3 of all U.S. economic activity.





Example of Economies...

Pure
Market
Economy

Pure
Command
Economy

Mexico

Russia

U.S.

Sweden

Mainland
China

North
Korea





Government Philosophies

- Countries also have different philosophies of government which reflect not only the laws and rules, but how individuals are treated.
- There are three political philosophies:
 1. Capitalism
 2. Socialism
 3. Communism



Capitalism

- **Capitalism** features private ownership of business and a free marketplace competition.
- It is the same as a market system.
- The political system most frequently associated with capitalism is democracy.





Socialism

- The main goal of **socialism** is to keep prices low for all and provide full employment for everyone.
- The government generally owns or controls major industries such as telecommunications, transportation, and banking.
- Socialist countries tend to have more social services.





Communism

- Have a totalitarian form of government; this means that the government runs everything and makes all decisions.
- *Theoretically*, there is no unemployment in communist countries.
- The government decides the type of schooling people will receive and also tells them where to live.

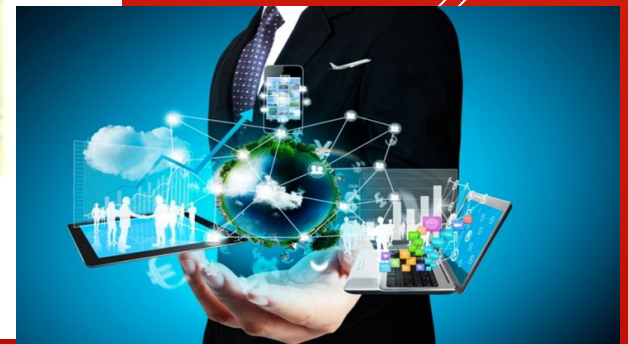


Economies in Transition

- Many countries are *in transition* from either communism or socialism to capitalism.
- **Privatization** is a common aspect of transition from a command economy to free enterprise system. Privatization means state-owned industries are sold to private individuals and companies.



Do you think the oil industry is a monopoly?



Thank you for attention!

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