NO PREP

Comparing Economic Systems

Market, Command, and Mixed

Includes: Student reading, case study, differentiated questions, teacher key

Name: Period: Date:

Comparing Economic Systems: Market, Command, and Mixed

What Are Economic Systems?

Economic systems are the frameworks societies use to allocate resources, produce goods, and distribute wealth. Each society faces questions about what to produce, how to produce it, and for whom to produce it. The answers to these questions vary based on the economic system in place, and these systems differ in how much control the government has versus individuals and businesses. The three main types of economic

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Market Economy: Freedom of Choice

In a market economy, the decisions of what, how, and for whom to produce are driven primarily by the choices of individuals and businesses, not the government. This system is based on supply and demand, where prices and production are guided by consumer choices. Businesses operate to make profits, which incentivizes them to provide goods and services that meet public demand. The United States is often cited as a strong example of a market-based economy, where private ownership and free enterprise are central. However, even the U.S. government regulates certain industries to ensure public welfare and fair practices.

Advantages of a Market Economy

One of the major benefits of a market economy is efficiency. Because businesses are profit-motivated, they seek to use resources in ways that minimize costs and maximize returns. Consumers also benefit from a wider variety of goods and services, as businesses compete to meet consumer demands. Another advantage is

innovation; the competition between companies drives new ideas, technologies, and products.

Disadvantages of a Market Economy

A major downside of a pure market economy is inequality. Without government intervention, wealth tends to become concentrated, leaving lower-income individuals with limited access to resources and opportunities. Additionally, certain public goods, like healthcare or education, may become unaffordable for some people without some form of government support.

Command Economy: Government Control

In a command economy, the government makes nearly all economic decisions. The government decides what to produce, how to produce it, and for whom production is intended. This system is often associated with communist or socialist ideologies, where wealth and resources are distributed more equally among citizens. Examples of command economies include North Korea and, historically, the former Soviet Union.

Advantages of a Command Economy

One benefit of a command economy is equity. Since the government controls resource allocation, it can strive for a fairer distribution of wealth and provide essential services to everyone. This can result in reduced inequality and the availability of public services, such as healthcare, for all citizens. Command economies can also ensure stability in certain areas, as they are less likely to experience economic fluctuations like recessions.

Disadvantages of a Command Economy

Command economies often lack efficiency and innovation. When the government controls production, there may be little incentive for businesses to minimize costs or innovate. Since goods are produced based on government directives rather than consumer demand, shortages and surpluses can be common. Citizens may also lack freedom in their choices about work, consumption, and personal pursuits.

Mixed Economy: A Blend of Systems

A mixed economy combines elements of both market and command economies, blending government control with individual and business freedom. In a mixed economy, certain sectors may be left to the market, while the government controls others to ensure public welfare. Most modern economies, including those of the United Kingdom, Canada, and many European countries, operate as mixed economies.

Advantages of a Mixed Economy

A mixed economy aims to balance the efficiency and innovation found in a market economy with the equity and stability of a command economy. In a mixed system, the government can provide essential public goods, regulate unfair practices, and implement social programs to reduce inequality. This system often allows for a balance where businesses can thrive, but the public also has access to crucial services like education and healthcare.

Disadvantages of a Mixed Economy

One potential drawback of a mixed economy is the risk of over-regulation. If the government exerts too much control, it can stifle business growth and innovation. Another challenge can be finding the right balance between public and private sector roles, as too much dependence on either can lead to inefficiencies or inequalities.

Case Study: The Former Soviet Union

The Soviet Union operated under a command economy from its founding in 1922 until its dissolution in 1991. In this system, the government controlled all major industries, such as steel, mining, and agriculture. While the Soviet government was able to achieve rapid industrialization, it came at a high cost. Goods were often in short supply, and the quality of products was frequently low. Citizens had limited choices, with long waiting times for essential items like housing and cars. The Soviet command economy provided healthcare and education universally, but economic stagnation became a significant issue. Without incentives to improve efficiency or innovate, businesses and industries lagged behind those in market-based economies. By the 1980s, economic conditions in the Soviet Union had worsened, contributing to the collapse of the system.

1. What were some benefits of the Soviet Union's command economy in providing public services?

_____

_____

2. How did the lack of competition affect the quality of goods in the Soviet Union?

_____

_____

Multiple Choice

1. Which economic system relies primarily on individual choice and market forces?

    a) Mixed economy

    b) Command economy

    c) Market economy

    d) None of the above

2. In which type of economy does the government control all major industries?

    a) Command economy

    b) Market economy

    c) Mixed economy

    d) Free market system

3. What is a potential disadvantage of a command economy?

    a) Increased competition

    b) Higher levels of inequality

    c) Over-reliance on market forces

    d) Limited freedom of choice

Matching

Write the letter of the correct definition on the line next to each term.

Term	Definition
1. ___ Market economy	A) High government control
2. ___ Command economy	B) Freedom and competition
3. ___ Mixed economy	C) Fair distribution of wealth
4. ___ Equity	D) Minimizing costs to maximize returns
5. ___ Efficiency	E) Balance of public and private

Fill-in-the-Blank

1. In a command economy, the _____ makes most economic decisions.

2. A mixed economy includes elements of both a market economy and a _____ economy.

3. _____ is a benefit of a market economy, as businesses strive to innovate.

Short Answer

Answer each question in 2-4 complete sentences.

1. Explain one way a command economy can benefit its citizens.

_____

_____

_____

2. Describe a potential challenge of balancing government regulation and private enterprise in a mixed economy.

3. Why might some countries choose to operate a mixed economy rather than a pure market or command economy?