**Economic systems**

No two economies are organised in the same way, but they all have to solve three basic problems

**1. WHAT GOODS AND SERVICES TO PRODUCE**
e.g. what cars, leisure goods etc.

**2. HOW TO PRODUCE THE GOODS**
e.g. how much machinery, which city to produce in

**3. FOR WHOM TO PRODUCE**
e.g. who should receive the goods and services

**SHOULD THESE DECISIONS BE MADE BY PRIVATE FIRMS AND INDIVIDUALS OR BY THE GOVERNMENT?**

THREE TYPES OF ECONOMIC SYSTEMS

**1. FREE MARKET SYSTEM**

These decisions are made largely by private individuals and firms. They decide what to produce, how to produce and for whom to produce. Therefore resources are allocated via the forces of supply and demand.

*EXAMPLES*

Levi’s and Wranglers have the freedom to make and sell jeans in whatever styles and at whatever prices.

Private firms would provide hospitals for patients. They would also decide how much to charge them.

**2 COMMAND OR PLANNED SYSTEM**

The decisions are made by the Government. The Government makes plans about what to produce, how to produce and for whom to produce. Therefore, resources are allocated by the Government through a system of planning

*EXAMPLES*

The Government would tell factories what jeans to produce and what price to sell then for
The Government would provide hospitals for patients. They will probably be free to use

**3 MIXED ECONOMY**

In this case some decisions are made by private individuals and firms, and some by the Government. Therefore some resources are allocated via the forces of supply and demand and others by the state planning system

*EXAMPLES*

Most leisure and household goods are produced by private firms
Certain essential services are provided free of charge by the Government e.g. hospitals, schools

**THE UK HAS A MIXED ECONOMY**

|  |  |
| --- | --- |
| **PRIVATE FIRMS ALLOCATING RESOURCES** | **GOVERNMENT ALLOCATING RESOURCES** |
| Clothes e.g. Next, Top Shop | Hospitals |
| Some private schools | Many state schools |
| Industry e.g. Denby Pottery | Police force |
| Transport e.g. Midland Mainline | Army and weapons |

**ADVANTAGES OF EACH SYSTEM**

|  |  |
| --- | --- |
| **FREE MARKET** | **COMMAND** |
| There is lots of choice for consumers. Private firms understand people better than the Government | Essential services are provided free of charge |
| Firms aim to maximise profits therefore they try to meet customer needs | Everybody is guaranteed a job. There should be no unemployment |
| Individuals are allowed to start their own businesses. More enterprise | There should be less inequality in society |
| People have incentives. They can aim for higher wages or for a better job | Everybody is guaranteed housing |
| Firms are in competition with each other. They have to improve their efficiency and quality | Most people have the same government wage – whatever their job is |