Module 9: Economics
Topic 1 Content: Economic Systems

Introduction

Glover Mint: Welcome to another episode of WUSG News. I'm Glover Mint, here with my cohost, Demi Tracy. Today's program will focus on economic systems. Our financial analyst, Cain S. Hayek, joins us in the studio.

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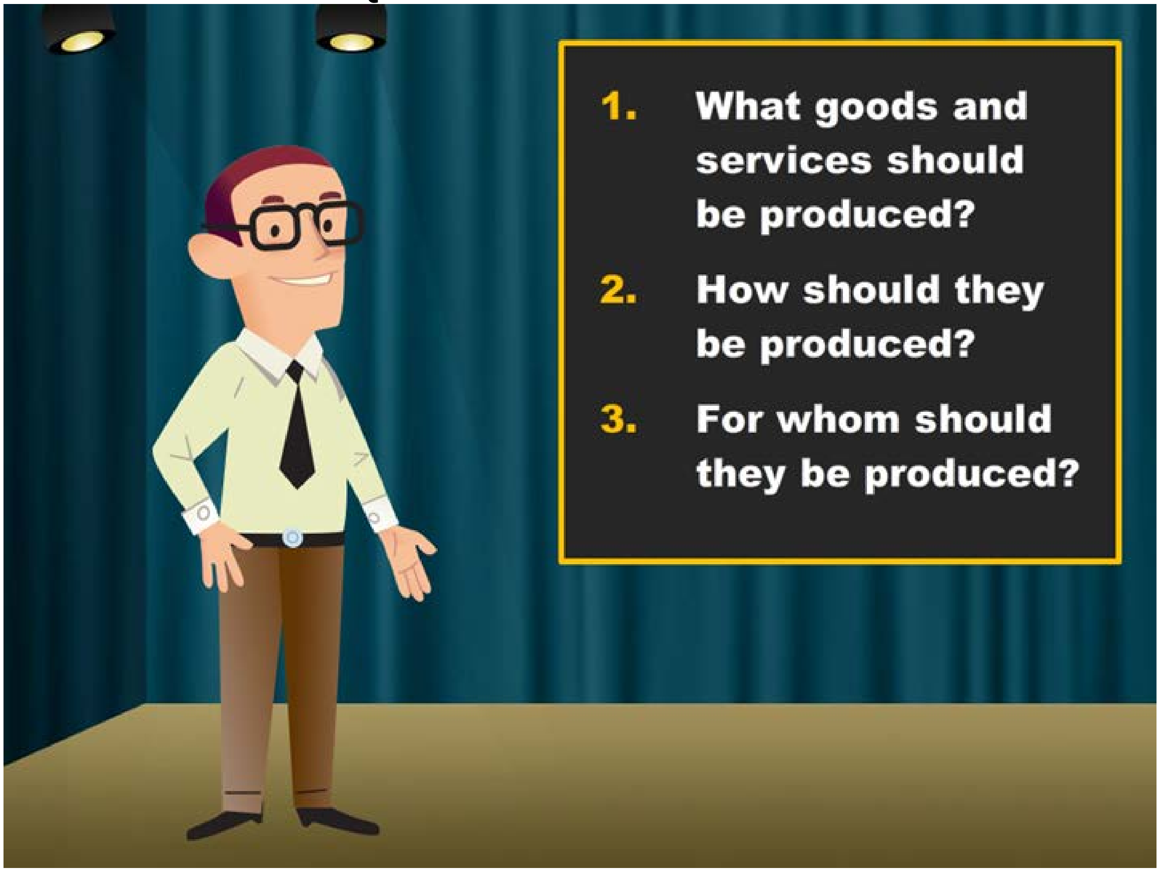
Three Basic Economic Questions



Cain S. Hayek: Thanks for having me. When a nation decides which economic system it would like to adopt, it has different options. A nation chooses its economic system based on how its society answers the three basic economic questions. The three basic economic questions are:

1. What goods and services should be produced?
2. How should they be produced?
3. For whom should they be produced?

Let's examine the different economic systems and see how they answer these questions.

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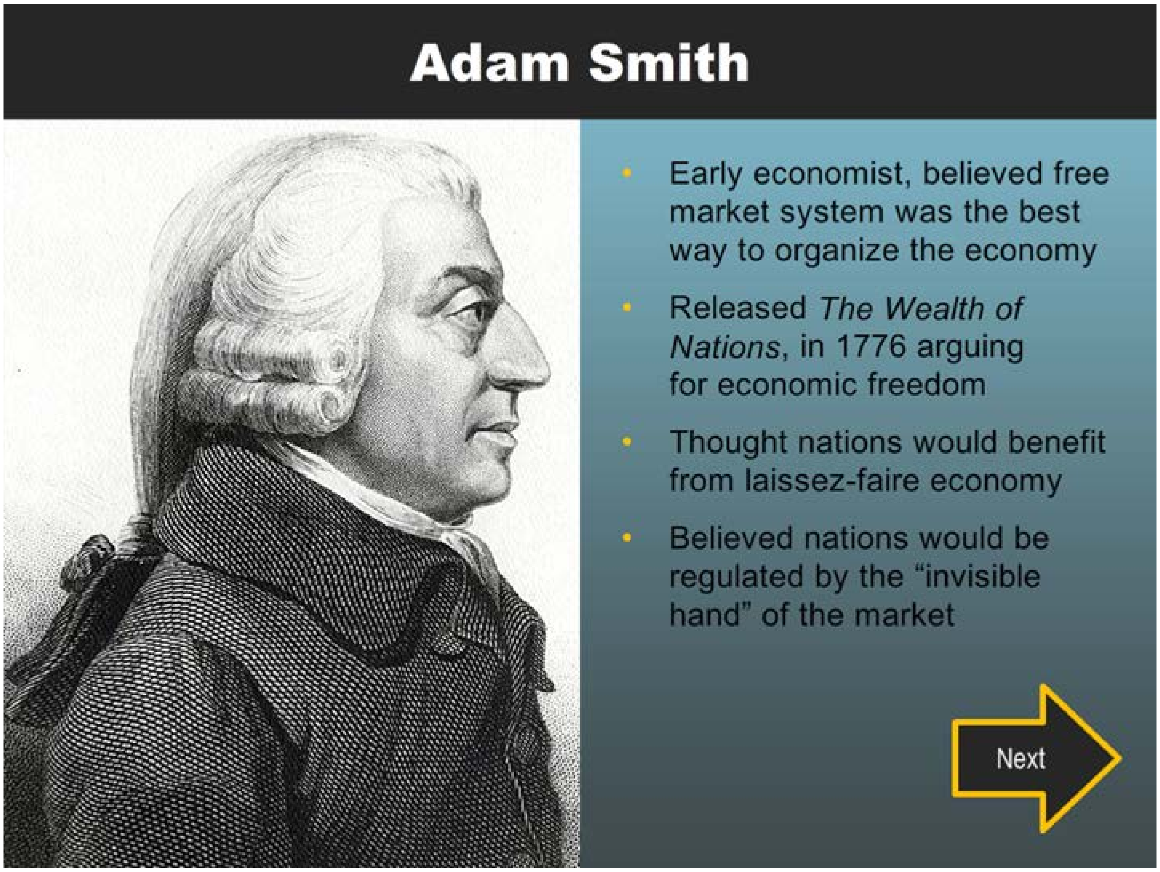
Traditional Economy

Cain S. Hayek: A traditional economy answers all three of the basic economic questions in a similar way. The response to all of these questions is, "what has typically been done in the past?" Traditional economies are based on customs and historical precedent. Consumption and production are focused on the family and the community, and the methods of consumption and production have remained the same throughout generations. This means that despite any natural ability or potential, people living in a traditional economy often work the same jobs as their parents and grandparents. These societies usually do not produce much more than they need, which also means they generally do not produce goods for other nations. This economic system may seem outdated, but several of these smaller economies continue to exist around the world.

Free Market Economy

Cain S. Hayek: If you are able to answer the three basic economic questions for yourself, then you are living in a free market economy. Individuals in this economic system are able to decide what goods and services should be produced, how they should be produced, and for whom they are produced. Consumers make these decisions on their own, without much interference from the government. Keep in mind, there is no such thing as a pure free market economy, since there are always some limitations on certain goods and services in order to protect public safety or national security. Some of the other characteristics of a free market economy are private ownership of property and resources, competition, profit motive, and individual choice.

Adam Smith

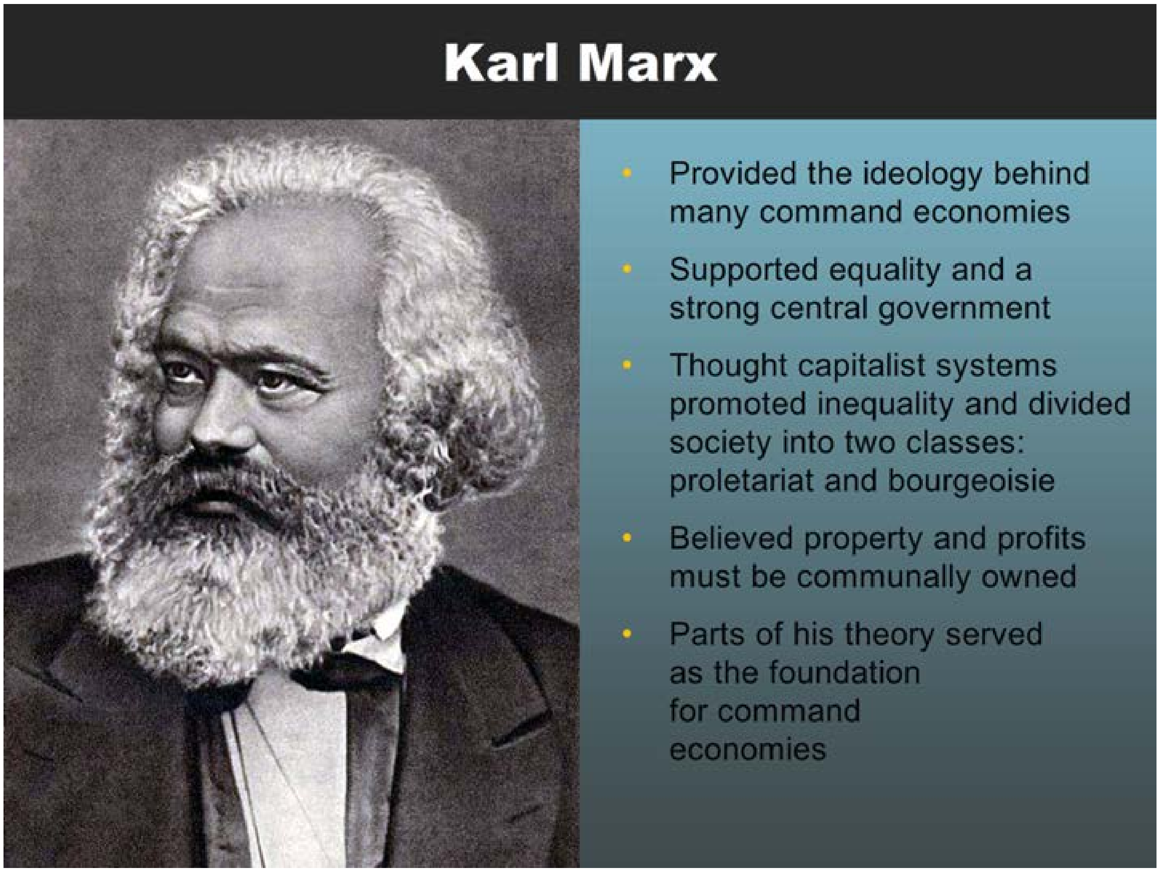


Cain S. Hayek: Free market economics owe a lot to Adam Smith, an early economist who believed that the free market system was the best way to organize the economy. In 1776, Smith released *The Wealth of Nations*. In this book, he argued for the principle of economic freedom, suggesting that it would lead to successful and wealthy nations. Smith believed that nations would benefit from a laissez-faire economy, which prevents the government from interfering with trade between individuals. Rather than have a strong central government which regulated production and consumption, these nations would be regulated by the "invisible hand" of the market. The "invisible hand" is a term Smith used to describe the influence of competition and self-interest on the economy.

Command Economy

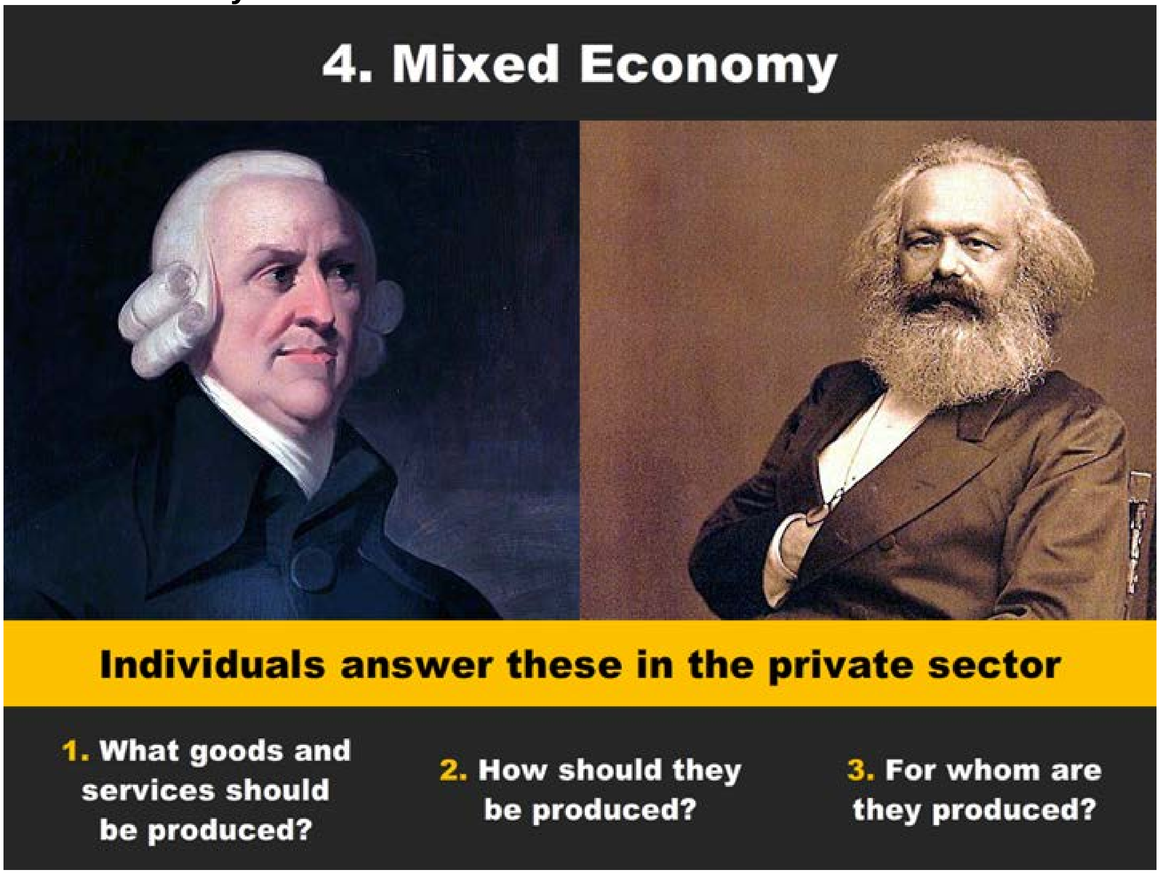
Cain S. Hayek: A command economy is an economic system that is centrally controlled by a powerful government. Government officials decide how to answer the three basic economic questions, since property and resources are owned by the state. This means that individual consumers in a command economy have little to no choice in economic decisions. Simply put, it is the opposite of a free market economy. North Korea is a modern example of a command economy.

Karl Marx



Cain S. Hayek: The writings of Karl Marx provided the ideology behind many command economies. Karl Marx supported equality and a strong central government. He thought that capitalist systems promoted inequality and divided society into two different classes: the working class, known as the proletariat; and the owning class, known as the bourgeoisie. Marx believed that for a society to be equal, property and profits must be communally owned and shared among all individuals. Marxist theory has served as the ideological foundation for many command economies, but the portion of his theory that supported the equality of people in the government has been excluded from these economic systems.

Mixed Economy



Cain S. Hayek: A mixed economy combines the competition, self-interest, and profit motive of free market economies with the government regulation and restrictions of command economies. The government in a mixed economic system has a more significant role than in a free market system, but a much weaker role than in a command system. Most economies today, including the United States, are mixed economies. In the United States, individuals and businesses answer the three basic economic questions in the private sector; however, the government answers the three basic economic questions for the public sector.

Another example of a mixed economy is the United Kingdom. The U.K. has a free market with private ownership of property, but also provides a degree of regulation, like mandatory vacation time and an annually updated minimum wage. Mexico also has a mixed economy with a free market, but the government has complete control of some major industries, like the oil industry. The People's Republic of China was purely a command economy, but since the late 1970s, it has slowly opened up its markets.

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Economic Freedoms

Cain S. Hayek: Throughout this episode, we have discussed economic freedom. This term refers to an individual's right to answer the three basic economic questions without interference from the government. It is the personal freedom an individual has to operate within an economic system. For example, having the ability to earn money is an individual economic freedom. Some other freedoms include:

- the right to spend your money on the goods and services you choose;
- the right to decide your occupation or change your job;
- the right to buy property;
- the right to decide how much money to save and where you will save it; and
- the right to start a business.

The amount of economic freedom that a nation possesses is directly related to the level of political freedom citizens have in that society. Democratic nations have greater levels of political freedom, and also greater levels of economic freedom. An authoritarian nation allows less political freedom, which results in a lower level of economic freedom. That's it for me today. Thanks for having me.

Ending of Episode

Glover Mint: Thank you, Cain. As always, we appreciate you stopping by. The same goes for all of our viewers. See you next time!