

# Economic Understandings

## Chapter 25



### READ: IMPORTANT INFORMATION

*SS6E5a and b are covered on pages 45-46.*

*SS6E5a. Compare how traditional, command, and market economies answer the economic questions of 1-what to produce, 2-how to produce, and 3-for whom to produce.*

*SS6E5b. Explain how most countries have a mixed economy located on a continuum between pure market and pure command.*



*SS6E5 The student will analyze different economic systems.*

*c. Compare the basic types of economic systems found in the United Kingdom, Germany, and Russia.*

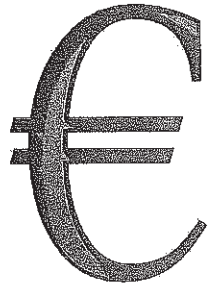
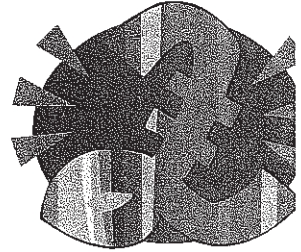
# Economics Makes the World Go Round!

There are three basic types of economic systems. Traditional systems are found in agricultural societies where people make what they need to survive. In a **command** system, the government controls all production and distribution. In a **market** system, supply and demand determines what is produced and sold. Most countries have **mixed economies** that fall somewhere in between pure market and pure command economies. Every economic system has to answer three basic questions: *What to produce? How to produce? For whom to produce?*

## Economies in Europe

You'll find several types of basic economic systems during your study of Europe:

- The United Kingdom has a **mixed market economy** that ranks as the second-largest economy in the European Union. Service industries like banking, insurance, and business services account for most of the UK's gross domestic product (GDP). Since 1979, the British government has turned over many state-owned companies like British Steel, British Coal, and British Airways over to private ownership (business), setting up free market competition instead of government control.
- Germany has a **mixed economy** known as a **social market economy**. It combines three things: a market system (free enterprise and competition), some state control, and social welfare where help is given to the poor. In 1990, when West Germany and East Germany were united, West Germany absorbed huge costs bringing East Germany's command economy into its market system. Despite that setback, the new Germany has emerged as the strongest economy in Europe!
- Russia has a **mixed market economy**. The Russian economy has struggled as it transitions from a command economy under the Soviet Union government to a market economy today. Many government-owned companies are being sold to the private sector (business), but Russia still faces financial problems and huge costs to upgrade its old manufacturing plants and industries to modern, more efficient standards.



### Essential Skills

In your own words, define a market economy. \_\_\_\_\_





### Essential Skills

Complete the chart below comparing the economies of the United Kingdom, Germany, and Russia.

Country	Type of Economy	Growing or Struggling	What the Government Controls
United Kingdom			
Germany			
Russia			



### Quick Quiz

Answer the questions below.

- List the three basic questions economic systems have to answer. \_\_\_\_\_  
\_\_\_\_\_
- Next to each question below, write T for traditional system, C for command system, and M for market system.
  - The government controls what is produced and how it is produced.
  - Supply and demand determines what is sold and how much it costs.
  - People make what they need to survive.
- The most common economic system today is:
  - command
  - market
  - mixed



### Think About It

History shows that command economies typically have not been successful, growing economies. Why do you think that is the case?

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