

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.

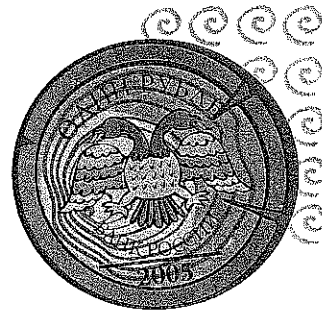
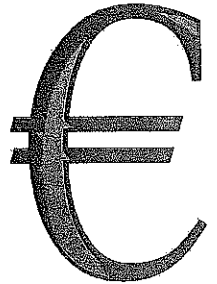
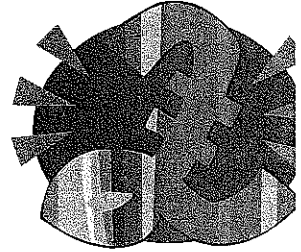
Economics Makes the World Go Round!

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?

Chapter 26

SS6E6 The student will analyze the benefits of and barriers to voluntary trade in Europe.

- a. Compare and contrast different types of trade barriers such as tariffs, quotas, and embargoes.
- b. Explain why international trade requires a system for exchanging currencies between nations.

It's Time to Trade

Countries sometimes set up trade barriers to restrict trade because they want to sell their own goods to their own people. They don't want foreign competition to come in with lower prices! Just about every country has some restrictions on foreign imports. Trade barriers include:

- **Tariffs** are taxes placed on imported goods. Tariffs cause the consumer to pay a higher price for an imported item, increasing the demand for a lower-priced item produced domestically.
- **Quotas** are restrictions on the amount of a good that can be imported into a country. Quotas can cause shortages that cause prices to rise.
- **Trade embargoes** forbid trade with another country.



Trade in Europe

The European Union (EU) was primarily established to set up free trade among countries in Europe. Today, the EU is a powerful trade bloc, making up one-fifth of the world's trade. Products produced in Europe can now move freely, without tariffs, to other EU member nations. This free trade leads to tremendous cost savings for European consumers and businesses!

In order to protect its members, the EU sometimes establishes quotas on trade with other nations. For example, the EU placed quotas on clothing imports from China when EU members with strong textile industries (like France and Italy) complained about cheap import prices. The EU also has internal quotas. For example, the EU strictly limits the amount of fish a boat can bring to port in order to give countries equal fishing advantage.

The EU will also embargo imports from foreign countries if that country doesn't follow specific quota rules. Embargoes are also put in place for safety reasons, such as an embargo against African fish products due to unsanitary water conditions. The EU may also embargo imports from countries for political reasons, such as a country that violates its citizens' human rights.

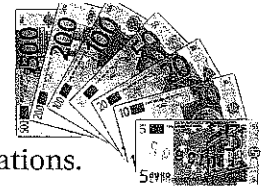


Quick Quiz

Decide if the examples below represent a tariff, quota, or embargo. Write the correct word next to each example.

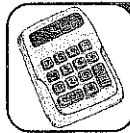
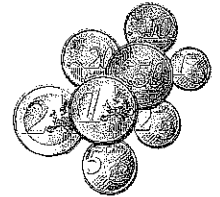
- _____ 1. Only 3,000 pairs of American blue jeans can enter France.
- _____ 2. The U.S. charges an extra 10 cents per pound on bananas from Costa Rica.
- _____ 3. No Brazilian beef can be sold to Spain.
- _____ 4. Only 10,000 barrels of oil can be delivered from Saudi Arabia to Italy this month.
- _____ 5. The EU will not accept any products from an African nation because its government will not allow free speech or freedom of religion.

Your Money = My Money!



Because every country does not use the same type of money, international trade requires a system for **exchanging currencies** between nations. Money from one country must be converted into the currency of another country to pay for goods in that country. This system is called **foreign exchange**. The exchange rate is how much one currency is worth in terms of the other. For example, an exchange rate of 5 euros to the dollar means that five euros are worth the same as one dollar.

The European Union took a big step in simplifying currency exchange when it established the **euro** as the common currency for its member nations. This one common currency has made trade—and travel—much easier within Europe! The euro bills all look the same, but the coins have a standard euro design on one side and symbols from individual countries on the other side.



Special Economics Info

The value of the euro in relationship to the dollar changes frequently. Let's say that one euro is equal to 15 American dollars. Using that exchange rate, answer the questions below.

- 1. Which is worth more: one euro or one American dollar? _____ Explain your answer.

- 2. You want to buy a purse in Italy that costs 30 euros. How much do you need in American dollars to buy the purse? _____
- 3. You have \$75 dollars. Do you have enough money to buy a jacket in France that costs 55 euros?
Yes _____ No _____
- 4. Your friend from Spain has 4 euros. Does he have enough money to buy a hamburger and fries for \$5.95?
Yes _____ No _____
- 5. Considering the exchange rate listed above, would an American traveling in France be pleased about the exchange rate? Why or why not? _____