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## WORKSHEET 16

School: Ba Sangam College

Year: 10

Name: \_\_\_\_\_

Subject: Commercial Studies

Strand 3	Economics II
Sub Strand 3.1	Introduction to Economics
Content Learning Outcome 3.1.1	Investigate and explain economic problems using different Economic systems.

### The Four Types of Economic System

	1. <u>Traditional Economy</u>	2. <u>Free Market Economy</u>
<b>Definition</b>	The traditional economic system is controlled by the cultural beliefs and customs and habits developed and handed down through generations.	Free Market Economic System is where all the major decisions are made by the private individuals or business firms.  This system is also known as <b>Capitalist, Free Enterprise or Laissez – Faire</b> . It is called Laissez Faire because there is <b>no</b> government interference in the market forces and <b>invisible hands</b> determine price and production.
<b>Other Names</b>	Subsistence economy	<b>Free Enterprise or Laissez – Faire, market economy, capitalist economy</b>
<b>Characteristics</b>	Families and society decides on how to answer the economic questions of what to produce, how to produce and for whom to produce goods and services.  Resources Ownership- productive resources are owned collectively by the society as a whole.	<b>Consumer Sovereignty</b> – consumers demand determines what goods and services are to be produced. Profit Motive – business organization operates with the main aim of making a profit Price mechanisms / Invisible Hands: means that the prices of goods and services are determined by the forces of demand and supply. Resources are privately owned. Method of Exchange- Money and different modes of payment are used (e.g. Card system) electronic banking.
<b>Advantages</b>	Simple forms of social organization because their needs are relatively simple and there is little need for capital innovations. Has no industrial pollution. It is based on barter system therefore there	Freedom of choice by both the consumer and suppliers It encourages efficient use of resources which creates competition and motivations Producers are able to respond quickly to consumers demand Continue innovations and technologies progress
<b>Disdvantages</b>	They have little choice or variety of goods for consumption. The economic system is only applied in a local (small society) rather than national level. It has a low level of standard of living with no economic growth and development as medium of exchange is absent.	There is no motivation to produce services such as police force, court orders, laws, highways and hospitals due to high cost. High social costs from production such as pollution are often ignored by the business firms the market.
	3. <u>Command Economic System</u>	4. <u>Mixed Economic System</u>

<b>Definition</b>	The economic system is controlled by the state or the government .It is also known as collective or planned economic system	In this economic system resources are owned and controlled by private individuals and the state .A mixed economy has some features characteristics of a free market economic system and a planned economic system.
<b>Other names</b>	<b>Communist, planned and central economy</b>	<b>Controlled by both the private and public sector</b>
<b>Characteristics</b>	Government or state controls and owns most of the resources The government influences most of the production activities. Production is specialized. There is strong emphasis on producing capital goods.	Profit motive and free enterprise Private ownership of property Freedom of choice of goods and services
<b>Advantages</b>	Productions are directed towards peoples need and not for profit seeking thus fair allocations of resources. It is claimed that it minimizes the wastage of resources State is in a better position of control economic stability (i.e. inflation level)/ (low prices) , employment level and wages fluctuations.	Provide ample scope for private initiative, self-interest and profit motive. It provides for freedom, economic liberty and consumer sovereignty It retains the right to private property It seeks to achieve equality of income and wealth in general through a system of taxation. It seeks to achieve economic growth and a better standard of living
<b>Disadvantages</b>	There is excessive bureaucratic which is characterized by repetition, unnecessary delays in making decision, lack of responsibilities and efficiency. There is no freedom of choice for consumers (no consumer sovereignty) state dictates production. There is lack of incentives to work hard – since there is no reward and they may have their production quota increased with no rewards if they produce more.	Private sectors are not willing to produce goods and services if they are not profit making. They are reluctant to provide public and merit goods. There is national tendency for monopolies to occur and they may restrict output in order to increase prices this may be against public interest. The industry is often unstable .The close down of an individual factory affects the entire economy.

#### Activity questions

1. The main aim of the producers in a free market economy is to
- determine consumer sovereignty.
  - have little consumer choice.
  - provide services.
  - make profit

(1 mark)

2. Complete the table given below by explaining **one** advantage and **one** disadvantage for each economic system: (4 marks)

	<b>Traditional Economy</b>	<b>Mixed Economy</b>
<b>Advantage</b>		

<b>Disadvantage</b>		

3. Who decides on what to produce in a Command Economy?

- Producers
- Consumers
- Government
- Families and Societies

(1 mark)

4. Describe **two** features of a Planned Economy. (2 marks)

a.

b.

5. Define **Barter system**. **(1 mark)**
