

- Two polar extremes:
 - the command system
 - the market system

The Command System

Government owns most property resources and economic decision making occurs through a central economic plan

also known as socialism/communism

The Market System

Private ownership of resources and the use of markets and prices to coordinate and direct economic activity

capitalism

Markets:

places where buyers and sellers come together to buy/sell goods, services, resources

two people: demander - buyers of goods/services, and suppliers - sellers of goods/services

Freedom of Enterprise and Choice

Freedom of Enterprise:

ensures that entrepreneurs and private businesses are *free to obtain and use economic resources to produce **their choice** of goods/services*, and to sell them in their chosen markets

- I can sell anything I want and produce it how I want
- voluntary exchanges

Freedom of Choice:

enables owners to employ/dispose of their property and money *as they see fit*. Allows workers to try and enter any line of work for which they are qualified. Ensures that *consumers are free to buy goods/services that best satisfy their wants* and that their budget allows

- I can buy anything I want

Self-Interest

is the *motivating force* of the various economic units as they express their free choices

- focuses the economy to societies economic wants and needs
- consumers search for what they want at the highest quality and the lowest price
- producers try to maximize profits by producing what society wants in amounts best for society, at prices society is willing to pay, while using fewest resources

How will the system accommodate change?

Consumer preferences, technology, and supplies of resources all change

Change in consumer taste:

changes in preferences are communicated to producers through an increase/decrease in spending on a certain good—-increase in one good, decrease in the other

prices and profits will rise or fall

- higher prices and profit induces industries to expand and also gives revenue need to obtain resources essential to growth — —or vice versa leading to fewer workers and other resources are employed
- this is *consumer sovereignty*

How will the system promote progress?

by promoting technological advance/improvements and capital accumulation

Technological Advance:

the market system provides a strong incentive for technological advance and enables better products and processes to supplant inferior ones

technological advance includes new and improved methods that reduce production or distribution costs

a market system promotes rapid spread of technological advance throughout an industry

- *Creative Destruction:*

the creation of new products and production methods completely destroys market positions of firms that are wedded to existing products and older ways of doing business (vinyl record — cd's — iPods)