The Four Questions

8th Grade Social Studies

GLE #49

Grade-Level Expectation

- Economics
- Fundamental Economic Concepts
- 49. Describe how the four basic economic questions are answered in traditional vs. command vs. market economies (E-1A-M6)

The Four Basic Economic Questions

- What goods and services will be produced?
- How will goods and services be produced?
- How much (or how many) will be produced?
- Who gets the goods and services produced?

Three Economic Systems

- Traditional economy
- Command economy
- Market economy

Traditional Economy Defined

- A traditional economy
  - Has little technological innovation -- technology remains about the same from generation to generation
  - Uses primitive tools and techniques for subsistence farming
  - Is usually rural
  - Wealth and jobs are often inherited

Traditional Economy: What to Produce?

- Traditional economies must focus on the production of food because they are inefficient and do not produce enough excess food to support much specialization of labor. Most people are farmers, a few may be craftsmen, and a very small group may serve as religious or political leaders.

Traditional Economy: How to Produce?

- Traditional economies use the same methods to produce goods (mainly food) from generation to generation.
- The most primitive remain hunters and gatherers.
- More advanced traditional economies have adopted agriculture.

Traditional Economy: How Much?

- Traditional economies may struggle to produce enough food to avoid starvation.
- The lack of technology limits production because resources are not multiplied by the use of technology.

Traditional Economy: Who Gets?

- In traditional economies families struggle to produce most of the things they need, including clothing and tools.
- Excess food, when available, may be traded for goods that the family cannot produce, such as horseshoes or nails made by the village blacksmith.
- Inheritance decides who gets land, jobs, and leadership status.

Command Economy Defined

- A command economy is controlled by central planners in a government.
- Supply and price are decided by government bureaucrats.
- Command economies promise economic security and stability through planning (limiting freedom); historically this has not worked.
- The Soviet Union was a planned economy.

Command Economy: What to Produce?

- The government decides what will be produced.

Command Economy: How to Produce?

- The government decides how goods and services will be produced.

Command Economy: How Much?

- The government decides how much to produce.

Command Economy: Who Gets?

- The government decides who gets the goods and services that are produced.
  - Historically, the Communist Party members got the best and most of what was produced, leaving their “comrades” to stand in long lines for stores with mostly empty shelves.

Market Economy Defined

- Market economies are free from government interference and operate on the basis of supply and demand.
- The government has a “laissez-faire” policy -- it does not attempt to manage the economy in a true market economy.

Market Economy: What to Produce?

- Consumers decide what to produce through demand.
  - If more consumers want and will buy some good or service businesses will be attracted to enter the market and fulfill consumer wants.
  - If consumers lose interest in a good or service the businesses providing these must find another niche or go out of business.

Market Economy: How to Produce?

- Producers must find efficient ways to produce goods to keep costs low, therefore increasing profits or permitting lower prices to compete with similar businesses for consumers.

Market Economy: How Much?

- Consumer demand decides how much or how many of a particular good or service will be produced.
- Excess product may be sold for a loss, but companies that overestimate consumer demand may go out of business.

Market Economy: Who Gets?

- Consumers decide whether to buy a good or service at a particular price.
- Those able and willing to purchase an available item are free to do so.