

INTRODUCTION TO ECONOMICS:

**INTRO TO ECONOMIC SYSTEMS
INSTITUTIONAL STRUCTURE & CLASSIFYING ECONOMIC
SYSTEMS**

INTRO TO MARKET AND COMMAND ECONOMIC SYSTEMS

**UNIT [1.10]
RAPID REVISION**

ECON-HUB

THEORY RE-CAP



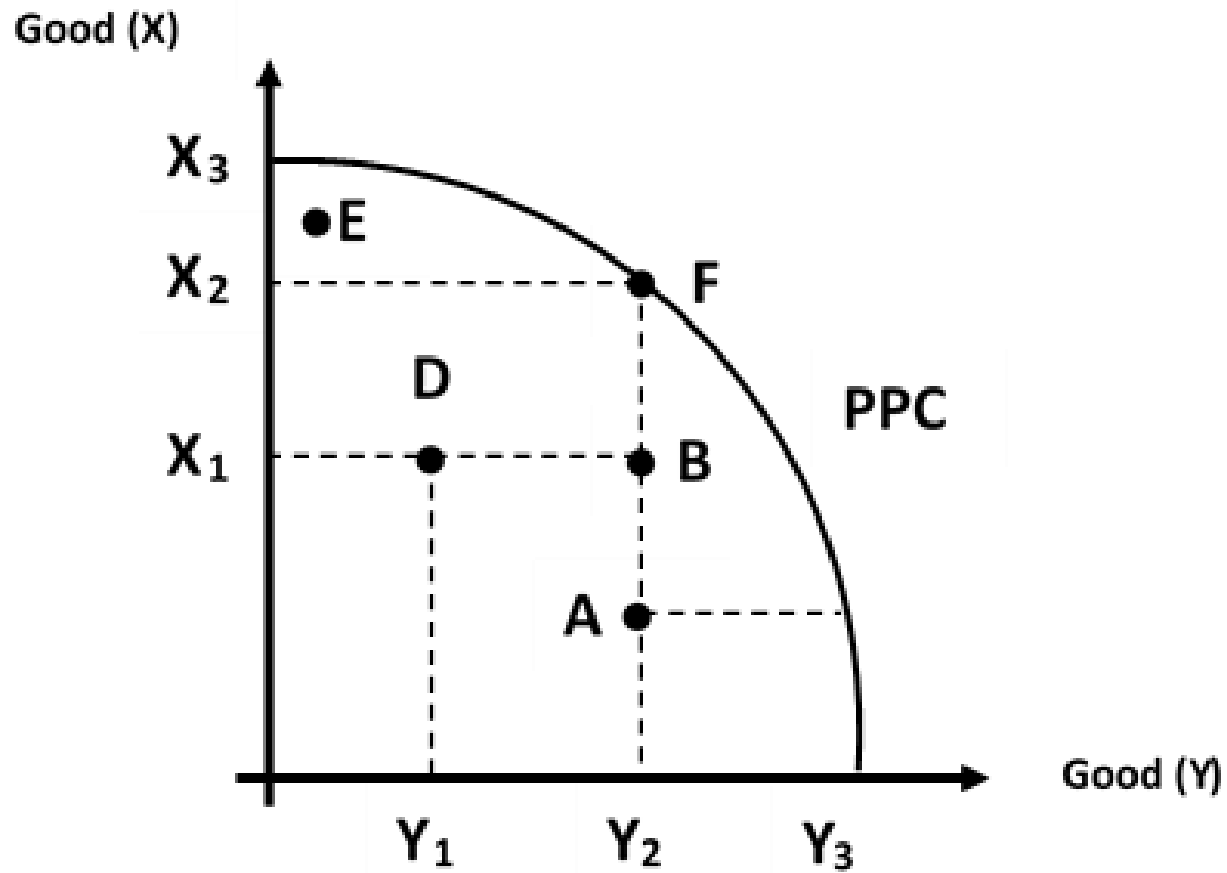
Theory Recap Questions [TRQs]
Practice Questions [PQs]

Essentials

'LETS MASTER ECONOMIC SYSTEMS

Economic Systems & Applications Unit 1.10 [REV]
ECON-HUB

**SPECIAL
ADDITIONAL ILLUSTRATION: PPF
'FOOD FOR THOUGHT'**



When is Opportunity Cost applicable; when moving from point (A) to another point ??

Answer Key

An opportunity cost may not be essentially incurred; when output of one product is increased using resources derived by decreasing the output of the other product while having **already unemployed resources** within the economy.

[e.g. producing (X_1) by decreasing product (Y) from (Y_2) to (Y_1), i.e. moving from point (A) to (D)],

Opportunity cost becomes applicable when moving from a point inside the PPC, to a point on or within the PPC, which is in the region where the output of the given product has to be **compulsorily foregone**, by some amount.

ESSENTIALS OF ECONOMIC SYSTEMS & SOLVING BASIC ECONOMIC PROBLEMS

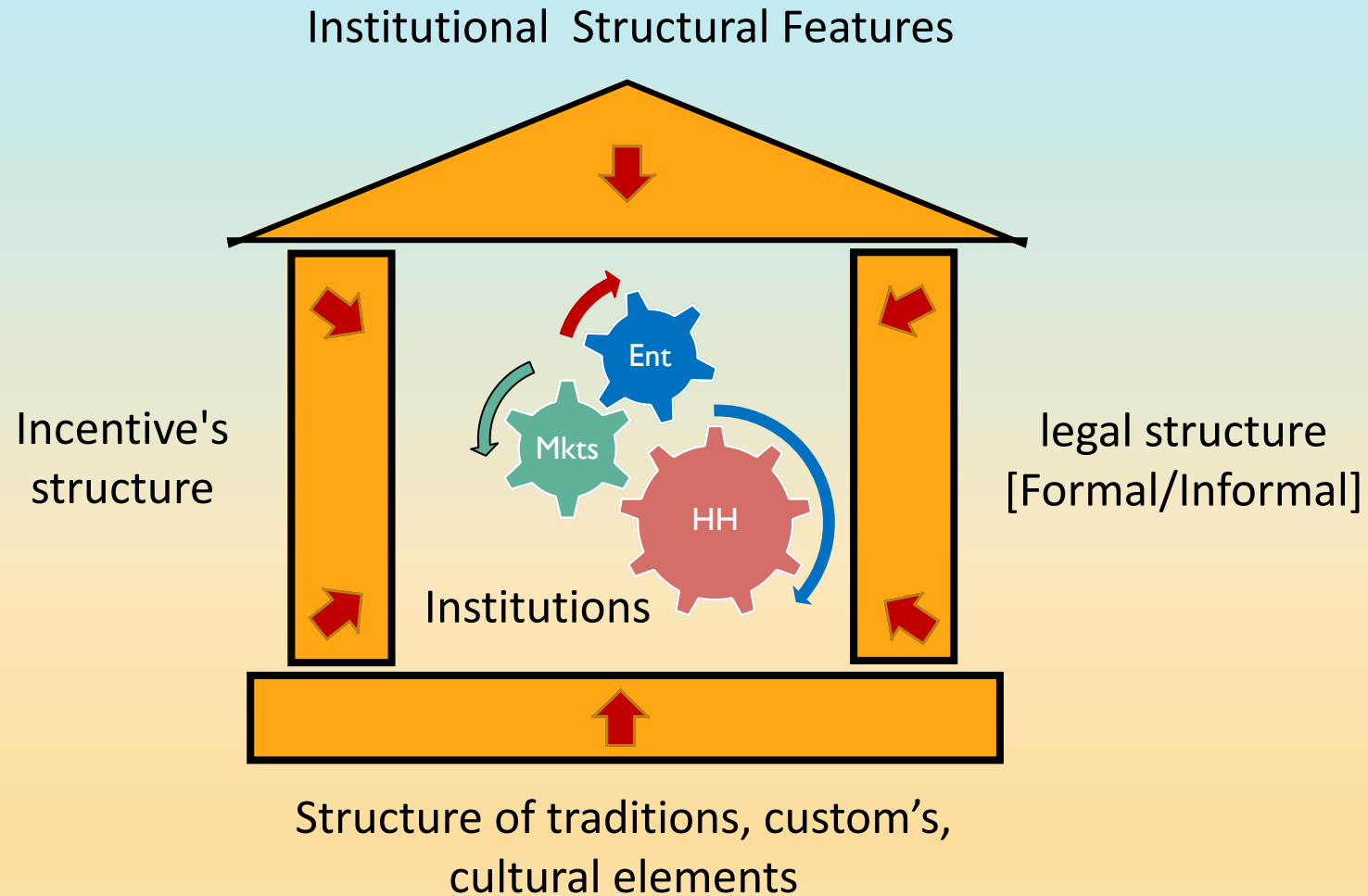
[UNIT 1, CHAPTER 3]

[TRQ: 25] What is meant by the term an 'Economic System'
[03 marks]

Any economic system has three basic economic questions to resolve: What and how much to produce, how to produce, and for whom to produce. *Essentially an economic system is a network of organizations created by people to resolve their basic economic problems.*

Each economic system functions within a unique framework consisting of a legal structure, incentives structure, structure of traditions, custom's, cultural elements.

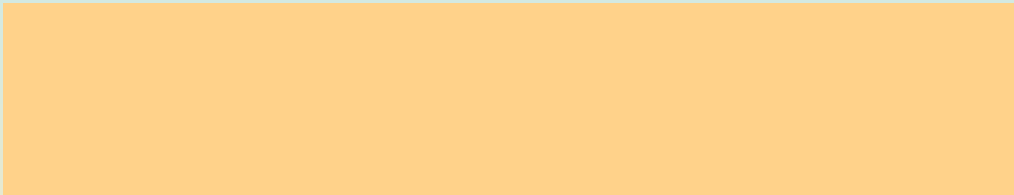
'INSTITUTIONAL' STRUCTURE



Also Relevant [11]

FUNCTIONS OF AN ECONOMIC SYSTEM **'BASIC ECONOMIC PROBLEMS'**

Problem(s)

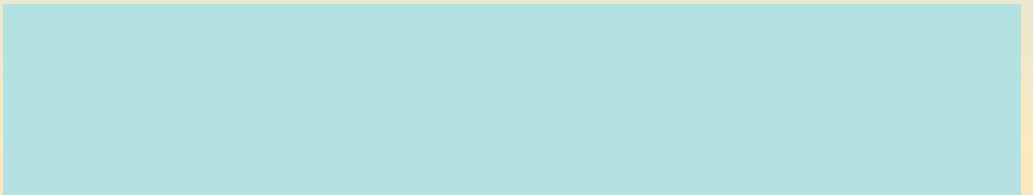


How to produce
[AKA: Production Problem]



Decision(s)

Production Decision



Distribution decision

Also Relevant [11]: Part (C)

INSTITUTIONAL COMPONENTS (INSTITUTIONS)

Also Relevant [11]: Part (C)

OTHER INSTITUTIONAL STRUCTURES 'OTHER INSTITUTIONS'

The aforementioned intuitional components (households, enterprises, government....) operate or function within the following structure or intuitions:

- **Legal Structure** [Formal and Informal]
- **Incentives Structure** [Material, Coercive and Moral]
- Structure of **traditions, values, custom's, cultural** elements (which are unique to each economic system)

Also Relevant [11]: Part (C)

NATURE OF INSTITUTIONAL STRUCTURAL FEATURES
NATURE OF INSTITUTIONAL FEATURES

REASONS FOR THE VARIETY OF ECONOMIC SYSTEMS

[1] Ownership of (Property) Resources

- **Capitalist/Liberal** economic systems
- **Socialist/ Communist** economic systems

• **Mixed Mechanism**

- Socialist Market Economic System
- Social Market Economic System
- Indicative Planning System

[2] Mechanism of Resource Allocation

- **Traditional systems**
- **Price Mechanism**
 - Market Economic System
- **Planning Mechanism**
 - Command (Central Planning) Economic System
 - Indicative Planning System

Answer Input [PQ: 35]

[3] Incentive System

- **Material Incentives**
 - Market Economic System
- **Coercive Incentives**
 - Command Economic System
- **Moral Incentives**

ESSENTIAL READING

“READERS ARE LEADERS, SUCCESS IS FOR THE PROACTIVE, NOT THE REACTIVE”

- ❑ Special illustration on Economic Systems [TRM Pages: 19 - 24]
- ❑ Special Clarifying Note [TRM Page: 7]
 - [1] Private Property Rights & Market Economy
 - [2] Functions of the Government within a Market Economy
 - [3] Basic intro to Price Mechanism

TRM [1.3] Page: 6

[PQ: 37] State the characteristics of a Market Economic System [04 marks]

- **High degree of competition, among producers to maximize profits**
- **Limited or Laissez Faire government involvement in the process of resource allocation**

TRM [1.3] Page: 8

[PQ: 38] State the salient characteristics of a Centrally Planned (or Command) Economic System

[04 marks]

- **Limited or no: competition (state monopolies), freedom of choice, freedom of enterprise among producers to maximize profits**
- **Limited role of private sector (private sector activities are based on government commands)**

COMMAND VS. MARKET

Command Economy	Market Economy
The centralization of decision taking	The decentralization of decision taking
Central planning	Price mechanism
State ownership of property	Private ownership of property
State enterprise	Private enterprise
State monopoly	Freedom of enterprise and competition
Decision making based on social welfare	Decision making based on self-interest
State domination of economy	Limited role of government (laissez-faire)
Corrective incentives	Material incentives (profits)

