

# WHAT IS ECONOMICS?

## MEANS OR FACTORS OF PRODUCTION

1. Everyone has wants. Wants may be individual or they may be collective. The people whose wants are being satisfied are called consumers. Consumers desire both goods and services. Goods are produced in factories, plants, households and places of business. To carry out production, natural resources, human resources and capital are needed.



2. LAND

NATURAL RESOURCES (or raw materials) come from nature and are used to produce goods. Natural resources are called "LAND" by economists.



3. LABOUR

HUMAN RESOURCES refers to the efforts people make to produce the goods. Economists refer to this as "LABOUR". A large labour force is required by an industrial nation. It should be trained so it is skilled and operates at a fairly high level of technology.



4. CAPITAL

A third productive resource, called "CAPITAL" by economists, is necessary to produce goods and services. The capital is used to generate income. It goes towards people's salaries, wages and fees. Capital is needed for:  
 (1) the construction of the factories and provision of the machines, equipment and tools within the factory;  
 (2) the transportation and communication facilities used to bring the raw materials to the factories and to distribute the finished goods;  
 (3) the power that is needed to run the machinery, heat the factory and provide light.  
 (NOTE—also called capital goods)

5. PRODUCTION

INPUT (LAND, LABOUR, CAPITAL) Whatever is required to make a product is the input.



Whatever is produced is known as the output.

OUTPUT

## SCARCITY: THE BASIC PROBLEM FACED BY ALL SOCIETIES

1. **UNLIMITED WANTS** **UNLIMITED RESOURCES**

If resources were readily available people could produce and consume to satisfy their wants.

BIG CAR  
MOTORHOME  
BIG BOAT

2. **Limited Resources** **Unlimited Wants**

But there are never enough resources to satisfy all the people's wants. A scarcity of resources results.

**SCARCITY** (limited resources versus unlimited wants)

3. People must therefore make choices about using the limited resources available to them.

BIG CART??  
SMALL CART??  
BICYCLE??

4. Societies, too, have to decide how to allocate the resources to satisfy the people's wants.

OR

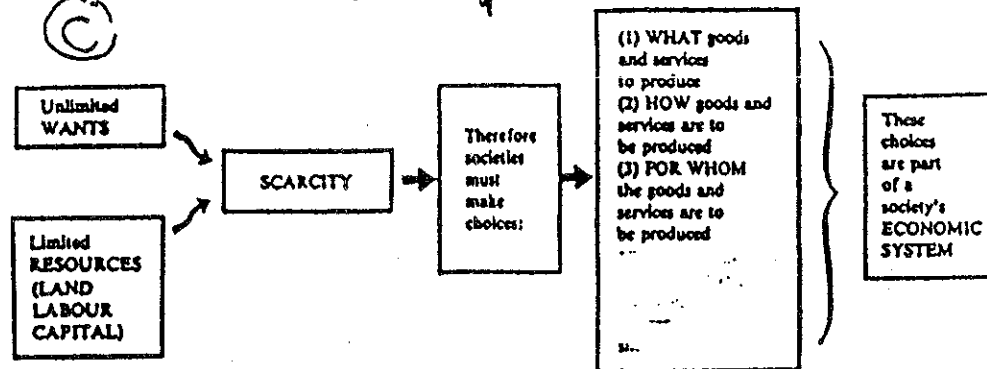
OR

OR

OR

5. This allocation of scarce resources is the basic economic problem faced by all societies.

### SUMMARY



The Choices

# ECONOMIC SYSTEMS

**1**

**TRADITIONAL ECONOMY**

"In addition to a Market Economy and a Command Economy there is another type of economy. It is called a **TRADITIONAL ECONOMY**. It's the oldest of the economic systems. Custom dictates how the production of goods and services are owned and controlled. The decisions, **WHAT, HOW, FOR WHOM and HOW MUCH**, are made according to what was done in the past."

Scarcity is the basic problem faced by all societies. Let's ask some people to see how they feel this problem should be solved.

The Answers

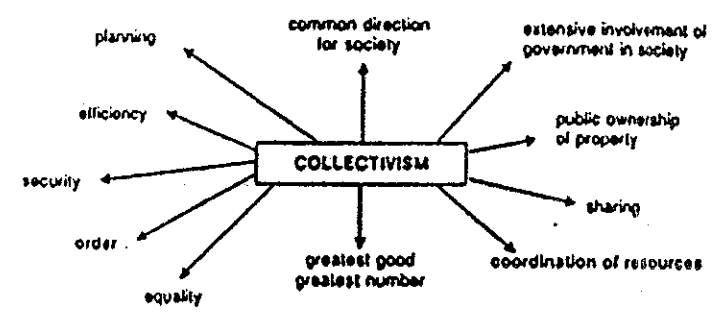
**3**

GOOD TIMES WERE MEANT TO BE SHARED!

**COMMAND ECONOMY**

"I disagree with that Market Economy guy! I believe there should be common ownership of the resources. I think the production of goods and services should be owned and controlled by the group. Only the group can decide on the four basic questions, **WHAT, HOW, FOR WHOM and HOW MUCH**. A Command Economy is the best system!"

Examine this view of collectivism which is presented by the following concept map.

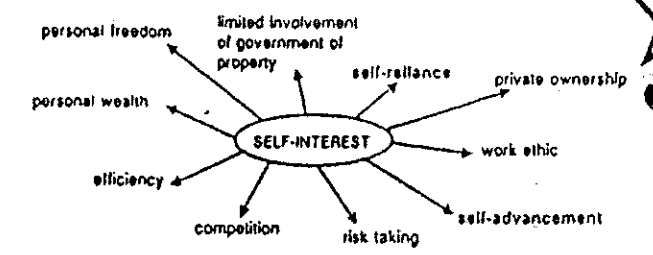


**2**

**MARKET ECONOMY**

"I think individuals should own the resources. Let me explain further. I think production of goods and services should be owned and controlled by individuals. I'm talking about a Market Economy of course. It's the best system because the four basic economic questions, **WHAT, HOW, FOR WHOM and HOW MUCH**, are all determined by individuals."

Examine this view of individualism which is presented in the following concept map.



I'm Taking My Ball Home!

LET ME BRIGHTEN UP YOUR LIFE

**4**

**MIXED ECONOMY**

"None of the economic systems—Market, Command or Traditional—work efficiently in the modern world. No country has an economic system that is a pure Market Economy or a pure Command Economy! All economic systems are a mixture. This is because governments influence the economy. This may vary from some influence in a Market Economy to almost complete regulation in a Command Economy. I think a Mixed Economy is best!"

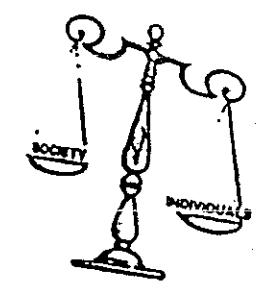
**VALUE POSITION**

THERE SHOULD BE COMMON OWNERSHIP OF RESOURCES.

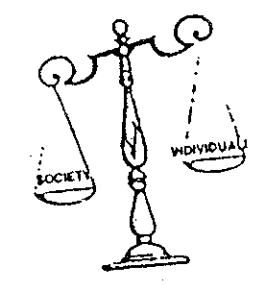
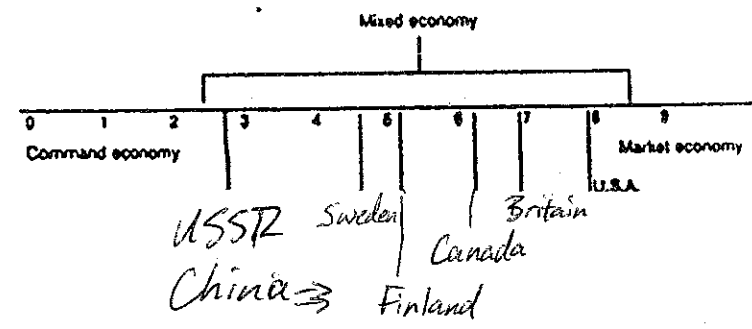
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**VALUE POSITION HELD BY: COMMAND ECONOMY**

Also called:  
CENTRALLY PLANNED ECONOMY  
PLANNED ECONOMY  
SOCIALISM  
COLLECTIVE ECONOMY  
COLLECTIVE OWNERSHIP.



**TYPES OF ECONOMIC SYSTEMS**



**VALUE POSITION**

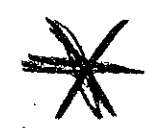
RESOURCES SHOULD BELONG TO INDIVIDUALS.

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**VALUE POSITION HELD BY: MARKET ECONOMY**

Also called:  
CAPITALISM  
FREE ENTERPRISE  
PRIVATE OWNERSHIP.

| QUESTION  | TRADITIONAL ECONOMY                                   | MARKET ECONOMY  | COMMAND ECONOMY   | Mixed Economy   |
|---|---|---|---|---|
| What should be produced?  | whatever has been in the past                         | whatever the consumers want the most (consumer sovereignty)   | what the state decides<br>1. what the state needs<br>2. what consumers need<br>3. what consumers want       | for the most part, consumer preference determines what products get made; however, some items are prohibited (e.g. narcotics) and others are demanded by the state (e.g. public education)  |
| How should goods and services be produced?                        | by using whichever methods have been used in the past | the businessman decides, using the methods that ensure the most profit and best quality product     | the state sends each enterprise (publically owned) specific quotas and directives for production            | for the most part, businessmen are free to use the methods of their choice; however there are government regulations in areas like: hygiene, safety, labour standards, pollution, etc.  |
| who should get the finished goods and services that are produced? | whoever received them in the past                     | whoever can afford them (the price will be set by the interplay of the forces of supply and demand) | whoever the state decides should have them (the emphasis tends to be on sharing products on an equal basis) | most products are available to whoever can afford them; however some are restricted to certain ages (e.g. smokes, vehicles), some are offered at a government-set price (e.g. health and school fees) and still others are forbidden to all at any price (e.g. narcotics) |



THE 6 commandments of the Market system

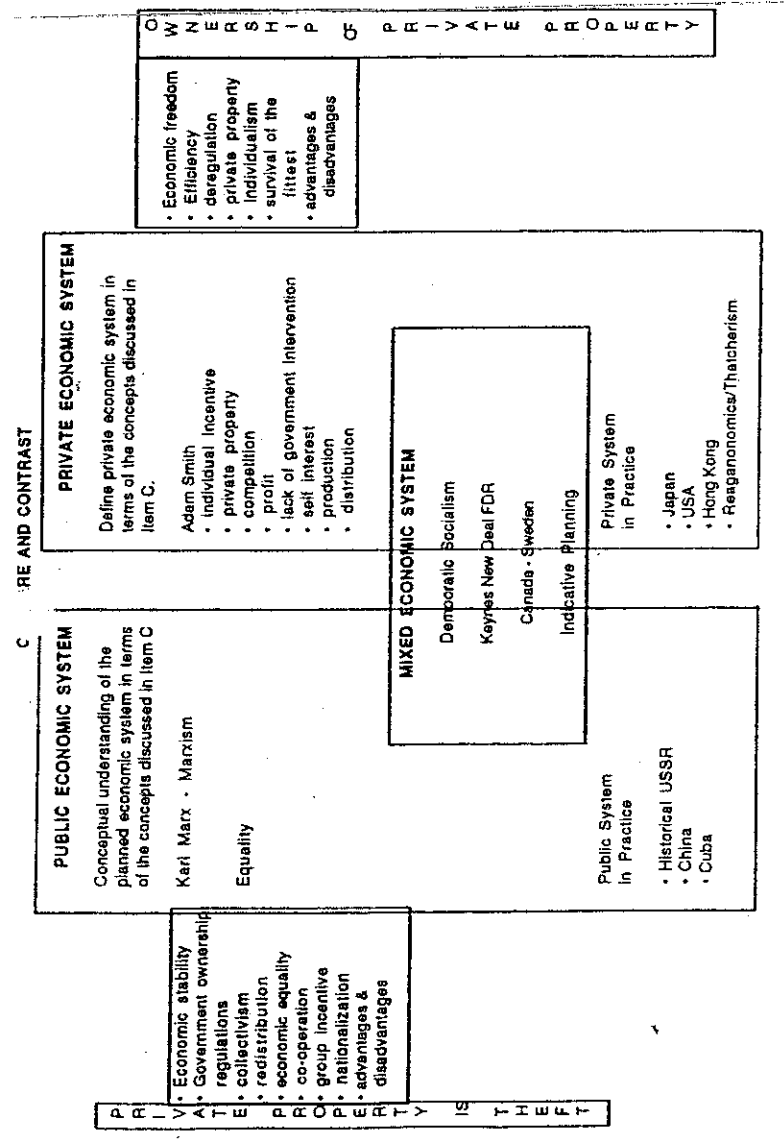
1. All factors /means of production are Private\_ly owned
2. People are motivated by self interest (and do their best work when competing to benefit personally)
3. Scarce resources are allocated by the forces of supply and demand to make what consumers want the most
4. Businessmen compete freely to maximize their profits
5. The government stays out of business (its role is confined to keeping society safe and dealing with other nations)
6. All parties in society--consumers, workers, owners and the general interest---benefit from this system



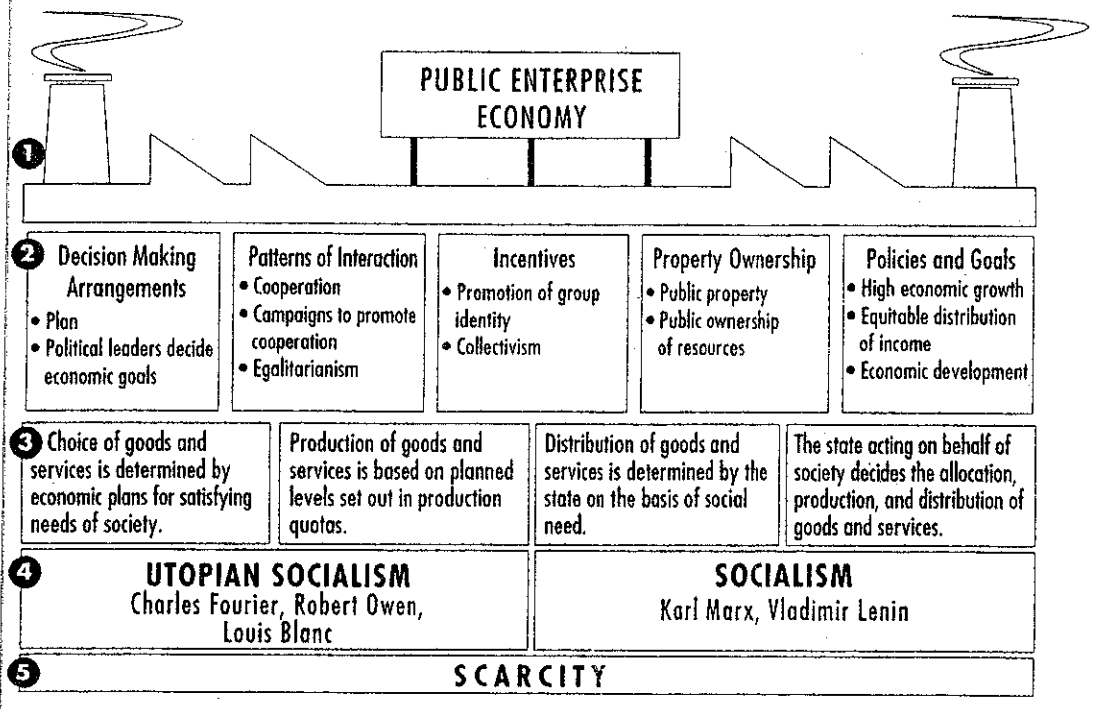
the 6 Commandments of the command system

1. All factors/means of production are publically owned (by the citizens in theory, and managed by the government in reality)
2. People are motivated by cooperation and sharing: (and do their best work when working collectively)
3. Scarce resources are allocated by the state to ensure the collective interest is served
4. Business managers fulfill orders from the state planning authorities
5. The government is involved in the economy to the max--through both owning enterprises and regulating them (controlling them with laws)
6. All parties---consumers, workers and the general interest---benefit from this system

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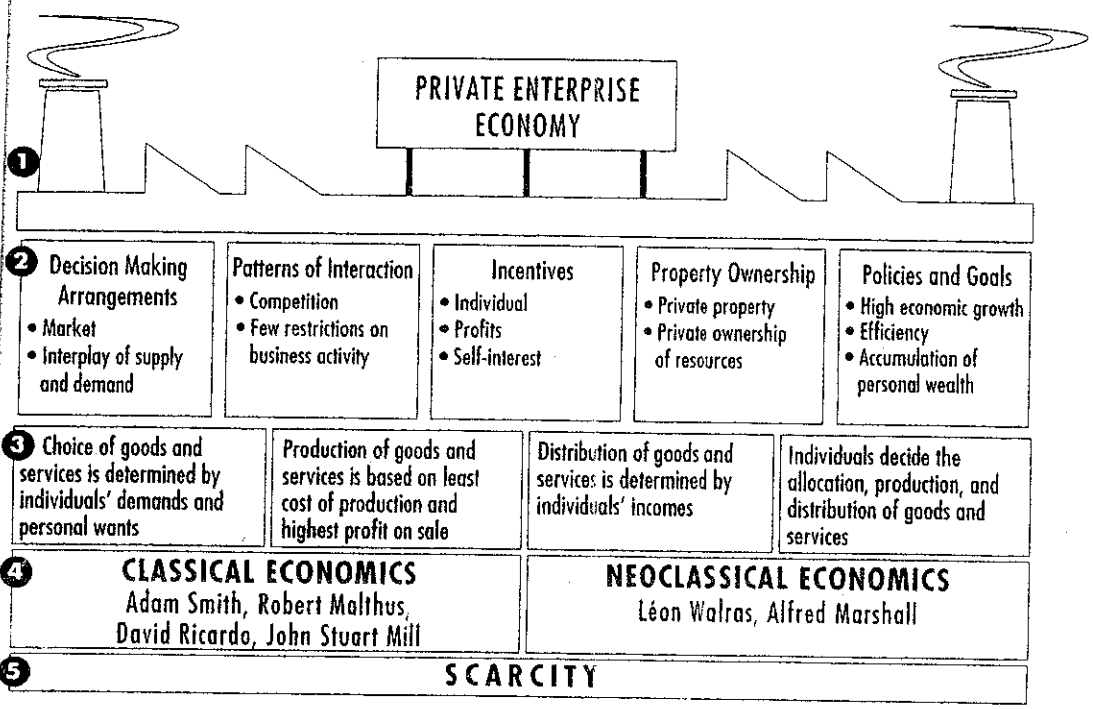


**PUBLIC ENTERPRISE ECONOMY (page 94)**



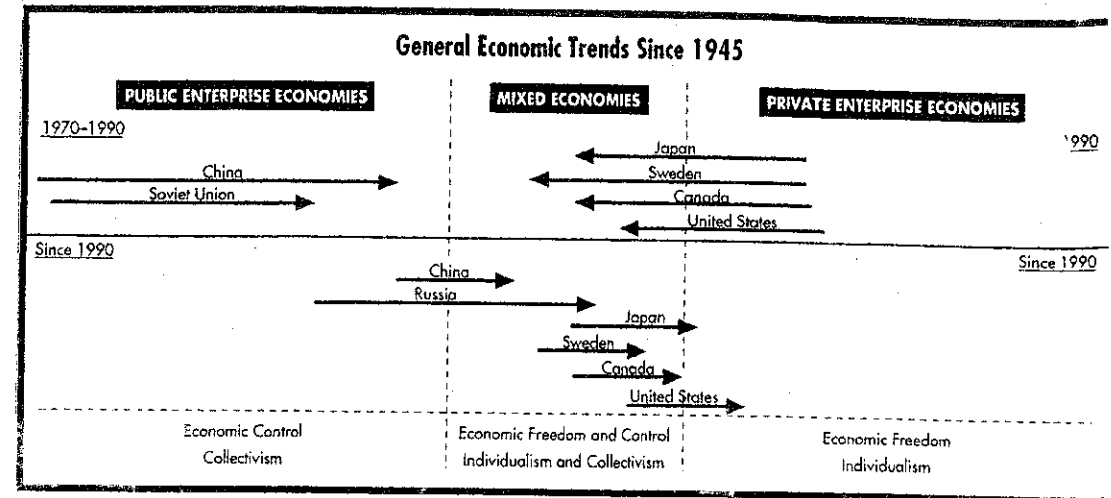
Legend 1 Economic Systems 2 Features of an Economic System  
 3 Society makes choices based on four Economic Questions 4 Foundation of a Society's Economic System  
 5 Role of Economic Systems (scarcity is the basic economic problem faced by all societies)

**PRIVATE ENTERPRISE ECONOMY (page 85)**



Legend 1 Economic Systems 2 Features of an Economic System  
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 5 Role of Economic Systems (scarcity is the basic economic problem faced by all societies)

**GENERAL ECONOMIC TRENDS SINCE 1945 (page 102)**



Appendix 8 - Advanced Political Spectrum

| LEFT  | CENTER   | RIGHT  |
|---|--|--|
|   | <b>I. Classical Liberalism</b><br>Stress proposals for:<br>1. Individual freedom from social order, including free enterprise.<br>2. Social, economic, and political equalities are on behalf of urban business and professions, etc. <sup>1</sup> | <b>I. Traditional Conservatism</b><br>Stress proposals for:<br>1. Existing strong social order, including government control of the economy.<br>2. Social, economic, political privileges or inequities to the advantage of landed aristocracy, etc. <sup>2</sup>                            |
| <b>I. Moderate Socialism</b><br>Stress proposals for:<br>1. Freedom from social order.<br>2. Social, economic, and political equalities but propose strong governmental control of the economy to the advantage of urban labour etc. <sup>1</sup> | <b>II. Free Enterprise or Conservative Liberalism.</b><br>1. Defend free enterprise with its inequalities.<br>2. Propose further freedoms and inequalities on behalf of urban labour, etc. <sup>1</sup>  | <b>II. Free enterprise or Liberal Conservatism</b><br>Accept freedom and equalities of classical liberalism, including especially free enterprise, but still defend strong social order, with economic inequalities, to the advantage of urban businesses and professions, etc. <sup>2</sup> |
| <b>II. Social Democratic or Conservative Socialism</b><br>1. Propose further freedoms and equalities.<br>2. Propose a strong governmental control of the economy but with a lot of free enterprise, for urban labour, etc. <sup>1</sup>           | <b>III. Social Welfare Liberalism</b><br>1. Propose further freedoms and equalities<br>2. Propose strong governmental control of the economy, but not as strong as that proposed by socialists, for urban labour, etc. <sup>1</sup>                | <b>III. Red Tories</b><br>Accept further freedoms and equalities, but still defend a strong social order, including governmental control of the economy for the benefit of urban labour, etc.  |

<sup>1</sup> Small farmer, primary producer, and subordinate or minority race, national group, region, gender, and/or generation  
<sup>2</sup> Dominant or majority race, national group, religion, region, gender, and/or generation.

# Economic Systems

## Learning Objectives

**Key Concepts** - students should be able to define, explain, and give examples of the following key terms:

| Concepts or Terms                    |                       |
|--------------------------------------|-----------------------|
| absolute monarchy                    | administrative fun    |
| boom and bust cycle (business cycle) | capital               |
| capitalism                           | cartels               |
| central planning                     | centralization        |
| class conflict                       | classless society     |
| collective bargaining                | collectivism          |
| collectivization                     | command economy       |
| communism                            | competition           |
| conformity                           | consumer price index  |
| consumer sovereignty                 | consumption           |
| cooperatives                         | cradle-to-grade       |
| Crown corporations                   | debt                  |
| decentralization                     | deficit (spending)    |
| demand                               | demand-side economics |
| democratic socialism                 | deregulation          |
| Dictatorship of the Proletariat      | disparity             |
| duties (on imported goods)           | economic equality     |
| economic growth                      | economic security     |
| economic (in)stability               | economic system       |
| entrepreneur                         | exploitation          |
| exports                              | fascism               |
| fiscal policy                        | five year plan        |
| fixed income                         | foreign ownership     |

|                              |                                   |
|------------------------------|-----------------------------------|
| free enterprise              | free trade                        |
| government (state) ownership | government (state) planning       |
| government (state) spending  | gross national product (GNP)      |
| Great Depression             | imports                           |
| incentive                    | income tax                        |
| indicative planning          | individualism                     |
| inequality                   | inflation                         |
| initiative                   | instability                       |
| interest rates               | interventionist                   |
| investment                   | Invisible Hand                    |
| Keynesian economics          | laissez-faire                     |
| market economy               | Marxist                           |
| medicare                     | mixed economy                     |
| monetary policy              | monopoly                          |
| multinational corporations   | nationalization                   |
| national debt                | New Deal                          |
| Perestroika                  | price system                      |
| private enterprise           | private sector                    |
| privatization                | productivity                      |
| profit motive                | progressive taxation              |
| prosperity                   | protectionism                     |
| public enterprise            | public sector                     |
| public utility               | quotas                            |
| Reagonomics                  | scarcity                          |
| self-interest                | services                          |
| socialism                    | social programs (social services) |
| standard of living           | subsidies                         |
| supply-side economics        | supply and demand                 |
| tariffs                      | taxes (taxation)                  |
| transfer payments            | unemployment                      |

|                        |                         |
|------------------------|-------------------------|
| unemployment insurance | unions                  |
| universality           | utilitarianism          |
| utopia                 | wage and price controls |
| welfare state          | working class           |

**Specific Events, Examples. And People** - students should be familiar with the following examples and individuals and how they relate to the concepts above:

|  |  |
|--|--|
| <b>Important People:</b>                                       | <ul style="list-style-type: none"> <li>• Mikhail Gorbachev</li> <li>• John Maynard Keynes</li> <li>• Karl Marx</li> <li>• John Stuart Mill</li> <li>• Benito Mussolini</li> <li>• Brian Mulroney</li> <li>• Ronald Reagan</li> <li>• Franklin D. Roosevelt</li> <li>• Adam Smith</li> <li>• Joseph Stalin</li> <li>• Mao Tse-tung</li> <li>• Margaret Thatcher</li> <li>• Deng Xiaoping</li> </ul> |
| <b>Examples of Market Economies:</b>                           | The United States - the Great Depression and New Deal.   |
| <b>Examples of Socialism Economies:</b>                        | <p><u>Command economy</u> (communism) - the USSR - means of production and distribution, benefits and drawbacks of the system, Gosplan, glasnost, perestroika</p> <p><u>Democratic socialism</u> - Sweden - means of production and distribution, benefits and drawbacks of the system.</p>  |
| <b>Changes to the Communist Systems in China and the USSR:</b> | <ul style="list-style-type: none"> <li>• Changes in the USSR were known as glasnost and perestroika.</li> <li>• Changes in China were known as kai feng and gai ge.</li> <li>• Both sets of changes provided for limited private ownership, more quality control, and foreign investment.</li> </ul>   |

|                                     |   |
|-------------------------------------|---|
| <b>Examples of Mixed Economies:</b> | Canada - capitalist and socialist features of our economy.        |
| <b>Recent Economic Trends:</b>      | Globalization and free trade (elimination of duties and tariffs). |

### Types of Economic Systems

There are two basic economic systems - capitalism and socialism. These systems answer the three basic economic questions in very different ways.

The state makes economic decisions for the entire country

A combination of the two systems

Individuals and individual businesses make economic decisions for themselves

#### SOCIALISM

group welfare  
cooperation  
equality

#### THE MIXED ECONOMY

#### CAPITALISM

individual initiative  
competition  
profit  
self-interest



Since there are no pure socialist or pure capitalist systems, you would be technically correct in saying that every country has a mixed economy. However, when trying to decide what kind of economic system a country has, it's important to look at the main or predominant features of that country's economic system and set aside the anomalies. The term mixed economy is most properly used to describe countries such as Canada which have a balance of socialist and capitalist features.

## Economic Models explained with cows

**SOCIALISM:** You have 2 cows, and you give one to your neighbour.

**COMMUNISM:** You have 2 cows. The State takes both and gives you some milk.

**FASCISM:** You have 2 cows. The State takes both and sells you some milk.

**NAZISM:** You have 2 cows. The State takes both and shoots you.

**BUREAUCRATISM:** You have 2 cows. The State takes both, shoots one, milks the other, then throws the milk away...

**TRADITIONAL CAPITALISM:** You have two cows. You sell one and buy a bull.

Your herd multiplies, and the economy grows. You sell them and retire on the income.

**SURREALISM:** You have two giraffes. The government requires you to take harmonica lessons

**AN AMERICAN CORPORATION:** You have two cows. You sell one, and force the other to produce the milk of four cows. Later, you hire a consultant to analyse why the cow has dropped dead.

**ENRON VENTURE CAPITALISM:** You have two cows. You sell three of them to your publicly listed company, using letters of credit opened by your brother-in-law at the bank, then execute a debt/equity swap with an associated general offer so that you get all four cows back, with a tax exemption for five cows. The milk rights of the six cows are transferred via an intermediary to a Cayman Island Company secretly owned by the majority shareholder who sells the rights to all seven cows back to your listed company. The annual report says the company owns eight cows, with an option on one more. Sell one cow to buy a new president of the United States, leaving you with nine cows. No balance sheet provided with the release. The public buys your bull.

**THE ANDERSEN MODEL:** You have two cows. You shred them.

**A FRENCH CORPORATION:**

You have two cows. You go on strike, organise a riot, and block the roads, because you want three cows.

**A JAPANESE CORPORATION:** You have two cows. You redesign them so they are one-tenth the size of an ordinary cow and produce twenty times the milk. You then create a clever cow cartoon image called 'cowkimon' and market it worldwide.

**A GERMAN CORPORATION:** You have two cows. You re-engineer them so they live for 100 years, eat once a month, and milk themselves.

**AN ITALIAN CORPORATION:** You have two cows, but you don't know where they are. You decide to have lunch.

**A RUSSIAN CORPORATION:** You have two cows. You count them and learn you have five cows. You count them again and learn you have 42 cows. You count them again and learn you have 2 cows. You stop counting cows and open another bottle of vodka.

**A SWISS CORPORATION:** You have 5000 cows. None of them belong to you. You charge the owners for storing them.

**A CHINESE CORPORATION:** You have two cows. You have 300 people milking them. You claim that you have full employment, and high bovine productivity, and arrest the newsman who reported the real situation.

**AN INDIAN CORPORATION:** You have two cows. You worship them.

**A BRITISH CORPORATION:** You have two cows. Both are mad.

**IRAQI CORPORATION:** Everyone thinks you have lots of cows. You tell them that you have none. No-one believes you, so they bomb the \*\*\*\* out of you and invade your country. You still have no cows, but at least now you are part of a Democracy....

**WELSH CORPORATION:** You have two cows. The one on the left looks very attractive.

**AUSTRALIAN CORPORATION:** You have two cows. Business seems pretty good. You close the office and go for a few beers to celebrate.