

Activity 2.6.

Fill the gaps using the words of the box:

Economic system	questions	society	tradition
slave	planning	free market	demand
government	mixed	state	

An is the way society organizes the production of goods and services. Every economic system answers three: What to produce? How to produce? Whom to produce for? How a answers the three basic economic questions determines the economic system.

There have been several types of economic systems in history. In an economic system based on, decisions are based on past behaviour. In ancient Rome, work was made by labour. In a command economy, decisions about production and consumption are made by a central unit, such as the government.

A system answers the basic economic questions in the marketplace, by means of the supply and The means of production are private and most goods and services are exchanged through transactions by households and businesses. The role of the is limited. It established the legal framework and enforces it.

Most economies in Europe have economic systems. Private property is accepted, but interferes taxing heavily and subsidizing at discretion.

Activity 2.7.

Read the text and complete the following questions:

- 1) In a free market economy decisions are made by while in a command economy decisions are made by
- 2) What are the advantages of the free market? And the disadvantages?
- 3) What are the advantages of the planned economy? And the disadvantages?

There are three types of economy: the free market (the allocation of resources is left to market forces of supply and demand), mixed economy (some of the decisions are made by the government and some are made by market forces) and command or planned economy (the government decides what is produced, how it is produced and for whom is produced). In the free market the decisions are made by individual buyers and sellers who act in their own self interest and the price mechanism allocates resources. The advantages are that free market maximizes production, social welfare and community surplus, the profit motive provides an incentive to reduce costs and be innovative and resources are allocated efficiently by market forces without government intervention. In the command or planned economy the decisions are made by central planning agency and there is neither private ownership of resources nor prices, supply and demand. The advantages of the planned economy are that the government can determine which goods are supplied and the equality in the distribution of income (all poor). The disadvantages are the allocative and productive inefficiency due to lack of prices, the lack of incentives to innovate.