**Standards**: SS7E4 Analyze different economic systems. a. Compare how traditional, command, and market economies answer the economic questions of 1-what to produce, 2-how to produce, and 3-for whom to produce.
**Economics of Southwest Asia - What exactly is an economy?** \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

This includes: People working, making products (production), selling products (distribution), buying products (consumption) and trading.

**Types of Economic Systems**

1. **Traditional Economy** – Economic decisions are based on \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_, rituals, religious beliefs, or \_\_\_\_\_\_\_\_\_\_\_\_\_\_ developed by society long ago.

Think: Tradition means something that has been \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ from generation to generation.

* **WHAT to produce**: Since traditional economies produce little to no surplus (extra), almost everything they produce is what \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ to \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ is that \_\_\_\_\_\_\_\_\_\_\_\_\_.
* **HOW to produce**: They produce things in the \_\_\_\_\_\_\_\_\_\_\_\_ manner their \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ did (determined by \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ or \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_).
* **FOR WHOM to produce**: Almost \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ is \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ (used) by the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ producing it. Very little is traded with others.
1. **Command Economy** – the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ decides what, and how much will be \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_. It also sets the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ of goods to be sold.

Think: Command, being \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ what to make.

* **WHAT to produce**: Determined by the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_. Frequently based on the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ interest \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ the interest of the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.
* **HOW to produce**: Determined by the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.
* **For WHOM to produce**: Determined by the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_, typically for government interest NOT \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ wants.
1. **Market Economy** - \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ and \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ make decisions about what to make (produce), sell, and buy. Other names include: Capitalism, Free enterprise.
* **WHAT to produce**: Based on \_\_\_\_\_\_\_\_\_\_\_\_\_\_ and \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_, if consumers want more of a good, then price goes \_\_\_\_\_\_\_\_\_. If they don’t want a good, then price goes \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.
* **HOW to produce**: Based on supply and demand too. If \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ (workers) is expensive, producers (makers) will \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ the amount of labor may replace with \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_. If labor is cheap, then producers may stop using machines.
	+ This allows producers to lower costs and make more \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_!
* **For WHOM to produce:** Goods and services are produced for the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ who have \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ to buy them.
* This allows consumers to prioritize goods based on their \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.
1. **Mixed Economy** - ALL modern economies in the world today have characteristics of BOTH \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ AND \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ economic systems, which is why they are called \_\_\_\_\_\_\_\_\_\_\_\_ economies.

Pure Command (government controlling) Pure Market (consumer freedom)

**Compare and Contrast Israel’s, Turkey’s, and Saudi Arabia’s Economies:**

**Israel’s Economy** - Have an advanced free market economy and is technologically advanced

**Turkey’s Economy** - Predominantly a free market one, made up of industry, a growing service sector, and agricultural sectors.

* Turkey’s government has prioritized privatization (citizen ownership), to limit the role of government in many areas of the economy (such as education, healthcare).
* The end goal is for a competitive market economy led by the private (citizen) sector.

**Saudi Arabia’s Economy** - Primarily \_\_\_\_\_\_\_\_\_-based and the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ controls most economic activities.

* However, recent government focus has been on expanding the private sector.
* Want to encourage a more diverse (variety of goods and services) economy to include larger numbers of Saudi people.
* Currently 6 million foreign workers make up the workforce, due to the oil industry.

**SS7E5** Explain how voluntary trade benefits buyers and sellers in Southwest Asia (Middle East). a. Explain how specialization encourages trade between countries. b. Compare and contrast different types of trade barriers, such as tariffs, quotas, and embargoes. c. Explain why international trade requires a system for exchanging currencies between nations.

**Specialization –** Products a country makes \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ and that are in \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ on the world market.

* Why should a country specialize in a product? Countries specialize to build a \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ economy and earn money to buy items that cannot be made \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ (basis for international trade).
* **Trade barriers** – anything that \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ down or \_\_\_\_\_\_\_\_\_\_\_\_\_\_ one country from exchanging goods with another.
	+ Three (3) types of trade barriers: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_, \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_, \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.
* **Tariff** –Is a \_\_\_\_\_\_\_\_\_\_\_ placed on \_\_\_\_\_\_\_\_\_\_\_\_ coming \_\_\_\_\_\_\_\_\_ a country. The goal of a tariff is to \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ the price of an \_\_\_\_\_\_\_\_\_\_\_\_\_\_, so that people in that country will buy the cheaper domestically produced good.
* **Quota** – Quota is a \_\_\_\_\_\_\_\_\_\_\_\_\_\_ on the amount of a \_\_\_\_\_\_\_\_\_\_\_\_\_ good that can be \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_. As with a tariff, the goal of a quota is to encourage people to buy domestically made goods.
* **Embargo** – an official \_\_\_\_\_\_\_\_\_\_\_ on trade or other commercial activity with a particular country.

**Exchanging Currency (Money)** - Nations have different currencies which are used to buy goods in that country.

* If someone from country A wants to buy something from country B, it is necessary for the person from country A to change his money into the money from country B.
* Since countries have monies that are worth different amounts, banks set an exchange rate which is based on the relative supply and demand for each nation’s currency.

**OPEC** - \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

* OPEC is a group of countries that \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_\_\_\_ to other countries.
* OPEC wants the price of oil to remain \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ so that their members can make more \_\_\_\_\_\_\_\_\_\_\_\_\_\_. To do this, they agree to \_\_\_\_\_\_\_\_\_\_\_\_ the amount of \_\_\_\_\_\_\_\_ produced in order to drive up prices.

**SS7E6** Describe factors that influence economic growth and examine their presence or absence in Israel, Saudi Arabia, and Turkey. Evaluate how literacy rates affect the standard of living. Explain the relationship between investment in human capital (education and training) and gross domestic product (GDP per capita). Explain the relationship between investment in capital goods (factories, machinery, and technology) and gross domestic product (GDP per capita). Explain how the distribution of oil has affected the development of Southwest Asia (Middle East).Describe the role of entrepreneurship.

**Literacy Rate** – is the percentage of people over the age of 15 who can \_\_\_\_\_\_\_\_\_\_\_ or \_\_\_\_\_\_\_\_\_\_\_ in a country.

The more \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ (ability to read/write) a work force is the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ it is.

The more educated, the better they can \_\_\_\_\_\_\_\_\_\_\_\_\_ and more \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ goods and services can be produced.

**Literacy Rate Comparison:**

* **Israel** – 97.8% of the population (Male – 98.7%, Female – 96.8%) 2011 estimate
* **Turkey** – 95.6% of the population (Male – 98.6%, Female – 92.6%) 2015 estimate
* **Saudi Arabia** – 94.7% of the population (Male – 97%, Female – 91.1%) 2015 estimate

**Human Capital**

* Human capital is the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ and \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ a worker has to produce a good.
* A \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ trained workforce can work more efficiently and create more valuable goods and services.
* Investments in Human Capital \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Gross Domestic Product (GDP)
* Types of Human Capital: Entrepreneurs, Education, Training, Workers

**Human Capital Comparison**

* In 2008 Saudi Arabia, spent 5.1% of their GDP on education expenditures.
* In 2013, Israel spent 5.9% on education expenditures.
* In 2013, Turkey spent 4.8% of their GPD on education expenditures

**GDP – What does GDP stand for? \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.**

* GDP is the total value of all \_\_\_\_\_\_\_\_\_\_\_\_\_\_ and \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ produced in a country in a year.
* GDP divided by the country’s population is called GDP per \_\_\_\_\_\_\_\_\_\_\_\_\_\_ (or per head)
* GDP shows how \_\_\_\_\_\_\_\_\_\_\_\_ or \_\_\_\_\_\_\_\_\_\_\_\_\_\_ a country is.

**GDP Comparison**

* **USA’s GDP** – $19.39 Trillion (2017 estimate), GDP per capita - $59,500 (2017 estimate)
* **Israel’s GDP** – $350.6 billion (2017 estimate), GDP per capita - $36,300 (2017 estimate)
* **Turkey’s GDP** - $849.5 billion (2017 estimate), GDP per capita - $26,900 (2017 estimate)
* **Saudi Arabia** - $683.8 billion (2017 estimate), GDP per capita - $54.800 (2017 estimate)

**Capital Goods**

* **Capital goods** are durable goods used in the production of goods. This can include \_\_\_\_\_\_\_\_\_\_\_\_\_\_, machines, and tools. A country that has invested in newer, more efficient tools will be able to produce more than one that has not.
* Investments in capital goods \_\_\_\_\_\_\_\_\_\_\_\_\_\_ the per capita \_\_\_\_\_\_\_\_ by allowing each worker to produce more.

**Capital Goods Comparison**

* **Israel** invests in the capital goods of agriculture and technology (medical, agricultural, mining and electronics.)
* **Saudi Arabia’s** capital goods investments are generally in the area of oil production.
* **Turkey’s** investments have been in agriculture in the past, but that investment has recently shifted to industry (textiles, equipment, metal manufacturing).

**Distribution of Oil (How oil is spread out)**

* Nations that border the \_\_\_\_\_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_\_, like Saudi Arabia have large valuable \_\_\_\_\_\_\_\_\_ reserves.
* Because of this, Gulf States, like \_\_\_\_\_\_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_\_\_\_, have devoted many of their resources to oil extraction rather than investing in human capital and capital goods to build a diverse economy.
* This means Saudi Arabia’s economy is solely tied to \_\_\_\_\_\_\_\_\_\_\_\_!
* \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ and \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ lack oil reserves, therefore, have \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ in human capital and capital goods and have a more \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ (variety) economy.

**Entrepreneurs** - someone who takes a \_\_\_\_\_\_\_\_\_\_\_\_ with their own \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ to start a \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

* Hopes to bring a new, better, or cheaper good to the market.
* Entrepreneurs allow the market to innovate, creating new goods that better satisfy people’s wants or allowing the market to become more efficient. Countries with entrepreneurial cultures will be more able to efficiently satisfy the wants of its people.

**Review Questions:**

* Describe how traditional, command, and market economies answer the basic questions of: what to produce, how to produce, and for whom to produce?
* Why are almost all countries a MIXED Economy?
* Explain how specialization encourages trade between countries in SW Asia.
* Compare and contrast different types of trade barriers, such as tariffs, quotas, and embargoes.
* Explain why international trade requires a system for exchanging currencies between nations.
* Explain how literacy rates affect the standard of living.
* Explain the relationship between investment in human capital and gross domestic product per capita
* Explain the relationship between investment in capital goods and gross domestic product per capita.
* Describe the role of entrepreneurship in SW Asia.
* Explain how the distribution of oil has affected the development of Southwest Asia/the Middle East.
* Explain the role and function of OPEC.