

Name: _____

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.

Economic Systems

Scarcity refers to the limited supply of something. Every country must deal with the problem of scarcity because not every country has everything that its people want and need. Every country must develop an economic system to determine how to use its limited resources to answer the three basic economic questions: What goods and services will be produced? How will goods and services be produced? Who will consume the goods and services? The way a society answers these questions determines its economic system.

Traditional Economy

In a traditional economy, customs and habits of the past are used to decide what and how goods will be produced, distributed, and consumed. In this system, each member of the society knows early in life what his or her role in the larger group will be. Because the jobs are handed down from generation to generation, there is very little change in the system over the generations.

In a traditional economy, people are depended on to fulfill their traditional role. If some people are not there to do their part, the system can break down. Farming, hunting and gathering, and cattle herding are often a part of a traditional economy. This type of economy was found in the culture of the Aborigines in Australia.

Command Economy

In a centralized command economy, government planning groups make the basic economic decisions. They determine such things as which goods and services to produce, the prices of those goods and services, and wage rates. Individuals and corporations generally do not own businesses or farms; these are owned by the government. Workers at a business are told what to produce and how much to produce in a given time. The expectation is that everyone in the country will be able to have the goods they need when they need them.

The government of Australia controlled one part of the economy in the past. Government-owned companies controlled telecommunications. The government set the price for having a phone, the cost of calls, and wages that were the same in all parts of the country. In 1989, the company was made into a private business with stockholders owning the company.

Market Economy

In a decentralized market economy, decisions are guided by changes in prices that occur between individual buyers and sellers in the marketplace. Other names for market systems are free enterprise, capitalism, and *laissez-faire*. In a market economy, individuals or corporations generally own businesses and farms. Each business or farm decides what it wants to produce.

Australia operates in a market economy. It is considered one of the freest economies in the world. Businesses operate without too many rules from the government. People are free to start a business and can do so quickly. Courts use the laws of Australia to protect the property rights of citizens.

_____ **1. In Australia, who decides which goods will be produced and sold?**

- A. Citizens
- B. The monarch
- C. Business owners
- D. The prime minister.

_____ **2. What type of economic system was used by the Aborigines?**

- A. Capitalism
- B. Market economy
- C. Command economy
- D. Traditional economy