Types of Economies

Traditional Economy

In a traditional economy, the basic economic decisions are made according to long-established patterns of behavior that are unlikely to change. These customs are passed along from elders to youth. The family is the basic unit of the traditional economy. However, in societies with traditional economies, all members work together to support the society rather than just their families. People use the same methods and tools generation after generation. They do not produce enough goods to have a surplus to sell, so they cannot earn extra money to buy better equipment. Without better equipment, they continue to work in the same way, never changing their methods.

People in a traditional economy usually own their own resources, such as land, labor and tools. They have some freedom to make their own day-to-day decisions about when and how to use their resources. Societies with traditional economies are usually small. Today few purely traditional economies remain in the world. A few societies in parts of Central and South America, Africa and Asia have traditional economies.

Free Market Economy

In a market economy, private individuals own the factors of production and are free to make their own choices about production, distribution, and consumption. Citizens are free to develop many different types of businesses, so people have a wide choice of goods, jobs, and services. Because people are free to choose how to make and spend their money, market economies are also called free enterprise. All economic decisions are made through a kind of bargaining process that takes place in markets. A local farmers' market, a sporting goods store, the New York Stock Exchange, and even the neighborhood sandwich shop are examples of markets. The value of what you have to offer sets the value of what you can get. Therefore, no one person or group runs a market economy. Instead, everyone takes part in running it by freely making economic decisions.

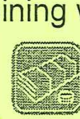
People in a market economy are free to decide how to use land, labor, and capital. They are also free to start their own business and decide what jobs they want to do. Major economic decisions are made by individuals, not by a centrally controlled government. Competition plays an important part in the market economy. Producers compete to satisfy the wants of consumers. Workers compete for jobs. One of the chief incentives for people in a market economy is the potential to make a profit. Another name for a market economy is capitalism, which means that capital is privately owned.

Command Economy

In a command economy, the government owns the country's resource and businesses. It decides what goods shall be produced and what services shall be available. This limits people's choices of jobs, goods, and services. In this type usually the government has control over important parts of the economy: transportation, communication, banking, and manufacturing. Farms and many stores are government controlled.

The decision of who gets what is produced depends on the goals and values of the central authority. A greedy dictator, for example, might choose to make himself and his friends rich. In this type of economy, consumers have little or no power in determining what and how much gets produced.

Mixed Economy



In a mixed economy, some businesses are owned by the government, and others are owned by private citizens or groups.