

Section 4: Economic Theories

Slide 1:

1. **Economics:** study of how limited resources are used to satisfy people's unlimited wants.
2. Resources include natural materials like land and water.
3. Classified two ways: How economies work and political ideology connected to that economy
4. How they work: traditional (pre-modern), market, command
5. Related to political beliefs: capitalism, socialism, and communism

Slide 2:

All economic systems ask three questions:

1. What and how much should be produce
2. How should goods and services be produced?
3. Who gets the goods and services produced.
 - These questions get answered in various ways depending on circumstances.
 - Societies with political freedom: free or unregulated economies
 - Societies with less political freedom have economies that are under more gov't control

Slide 3:

1. **Capitalism:** economic system in which freedom of choice and individual incentive for workers, investors consumers, and business enterprises are emphasized
2. Pure capitalism has 5 characteristics: private ownership and control of property and economic resources, free enterprise, competition, freedom of choice and possibility of profits
3. A market system: where buyers and sellers compete to make money is the heart of capitalism
4. Europe's capitalistic period begins in 1200 with explorers and merchants looking to open trade routes to Asia

Slide 4:

1. **Free market:** the gov't placed no limits on the freedom of buyers and sellers to make economic decisions
2. **Laissez-faire (French for "to let alone"):** Market would act as an invisible hand guiding economic choices for best results
3. It is the action of buyers and sellers, not the gov't, that determines what is bought and produced.

Slide 5:

1. Competition plays a key role because sellers compete over resources to produce goods and services at the most reasonable price
2. Consumers compete over limited products to buy what they want and need

3. Consumers as workers try to sell their skill and labor for best wages / salary

Slide 6:

1. Mixed economies: Elements of capitalism and socialism (America is a mixed economy)
2. **Socialism**: economic system in which gov't owns the basic means of production, determines the use of resources, distributes the products and wages and provides social services like education healthcare and welfare.
3. Started in 1800s during the industrial revolution
4. Workers lived in poverty, working 12 hour days, six days per week and couldn't bargain.

Slide 7:

1. Social reformers believed no one should suffer or starve and wanted gov't to direct the economy.
2. Opponents of socialism say it stifles individual initiative
3. High tax rates hinder economic growth
4. Leads to big government and dictatorship

Slide 8:

1. **Democratic Socialism**: citizens have basic democratic rights like freedom of speech, but the economic sphere is controlled by government.
2. Countries like Denmark, Norway and Sweden practice democratic socialism
3. These countries lessened government control of many economic activities but provide generous social benefits.

Slide 9:

1. The Communist Manifesto: Written by Karl Marx, said the capitalist system would collapse
2. **Proletariat**: Industrial working class
3. **Bourgeoisie**: Middle class as owners of industrial capital
4. Marx argued the capitalists were the ruling class because they had power over resources
5. Believe wages would never rise above a subsistence level (barely enough to survive), but he was wrong.

Slide 10:

1. Marx interpreted all human history as a class struggle between the workers and the owners of the means of production (resources).
2. That capitalists would own everything and be overthrown by the working class with the goal being communism.
3. **Communism**: Only one class (working class), all property held in common and no need for government

Slide 11:

1. Command economy: Government planners decide how much to produce, what to produce and how to distribute the goods and services produced
2. Decisions are made at the upper levels of government and handed down to the managers.

Slide 12:

1. In communist countries the state owns the land, natural resources, banks, and transportation.
2. They control mass communication: newspapers, magazines, television, radio, internet, and the movie industry.
3. Most communist countries that exist are in Asia
4. They vary in how much of the economy is state-controlled

Slide 13:

1. 1949 People's Republic of China is established and has tight control over economy
2. Five year plans specified precise goals for every facet of production in the nation.
3. For example it specified where houses would be built, who could live in them and how much the rent would be.

Slide 14:

1. Mao Zedong was the founder of the Chinese Communist party
2. After he died in 1976 China's economy evolved into a mixed.
3. Political freedom is still limited