

Economic Systems

PPC curve - outlines all possible combinations of production in a 2 product society

↳ Analytical aspect

↳ Normative aspect

↳ problem = what combination should a society select?

AND

how should it be selected?

↳ 2 basic approaches to economic decision-making

① free-market/capitalist approach

② Command/planned approach (socialist/communist)

↳ Key considerations

- ① level of government intervention
- ② resource/means of production ownership
- ③ control over decision process (degree)

FREE MKT SYSTEM

↳ resource ownership - productive resources owned by private interests (individuals & businesses)

- KEY = private ownership of property

↳ level of gov't intervention in economy is LOW

↳ individual is central to decision-making process (about resource use) Specifically, consumer demand drives production & thus use of resources.

COMMAND SYSTEM

↳ resource ownership - productive resources owned by public interest

- KEY = land, labour, & capital jointly owned (state control)

↳ nations resources (not possessed by any one individual business)

↳ level of gov't intervention in economy is HIGH/NECESSARY

↳ decision-making process centralised

Economics and Economists: The Basis for Controversy

"I think that Capitalism, wisely managed, can probably be more efficient for attaining economic ends than any alternate system yet in sight, but that in itself is in many ways extremely objectionable." J.M. Keynes The End of Laissez-Faire

What is Keynes' point?

What is the basic dilemma outlined by Keynes?

↳ the paradox rests in the fact that the free market system is extremely EFFICIENT

↳ CLAIM - produces more goods and services at a lower cost than any other economic system

↳ PARADOX - in producing this wide array of low-cost goods and services, problems arise

↳ PROBLEMS - ① a lack of economic EQUITY and STABILITY

Issues

Economic issues can be divided into 3 areas of study

① MICROECONOMICS - referred to as "micro" problems/concerns b/c deal w small economic units/entities, such as individuals, households, firms, or industries

② MACROECONOMICS - referred to as "macro" problems/concerns b/c impact the whole economy, many industries

③ OTHER ISSUES - issues that do not neatly fall into other areas, mainly international aspects of economics

WHY DO ECONOMISTS DISAGREE?

↳ Keynes problem

Schools of Thought

① Classical / Free-Market Economists

↳ GR - believe that the market, operating freely without interferences from gov't/unions, will generate the greatest amount of well being for the greatest number of people

↳ efficiency = key priority

↳ consumer sovereignty guides the system by directly influencing market prices

↳ market achieves the correct distribution of resources in most cost-effective fashion

↳ as rich get richer we all benefit (e.g., W. Buffet)

↳ reward-induced efficiency will result in rapid economic growth that will benefit all persons in society

↳ trade-off ... occasional instability and market discipline (business cycles self-correct)

↳ ASSUMPTION - model dependent on functioning competitive markets

↳ Adam Smith 1776 Wealth of Nations - invisible hand

↳ laissez faire model

② Liberal / Keynesian Economists

↳ GR - "liberal" meaning a willingness to intervene in the free operation of the market

↳ costs or instability a free mkt. creates cannot be ignored by gov't

↳ these costs often borne by those most economically vulnerable/marginalised

↳ instability means inflation, unemployment, slow or negative growth

↳ issue of fairness and equal opportunity to participate in the market

↳ free market does not account for externalities / spill-over effects

THUS gov't intervention is necessary

↳ imperfect competition not an acceptable substitute for competitive markets

↳ mkt. intervention to restore competitive character

③ Mainstream Critics & Radical Reform Economists

↳ e.g., contemporary Marxists - examine issues such as war, sexism, racism, imperialism, civil rights, class structures, etc.