

Economic Systems

A Review

Capitalism, Socialism & Communism

- **Capitalism** – the means of production are privately owned.
- **Socialism** – some of the basic means of production are owned by the government.
- **Communism** – all of the means of production are collectively (government) owned.



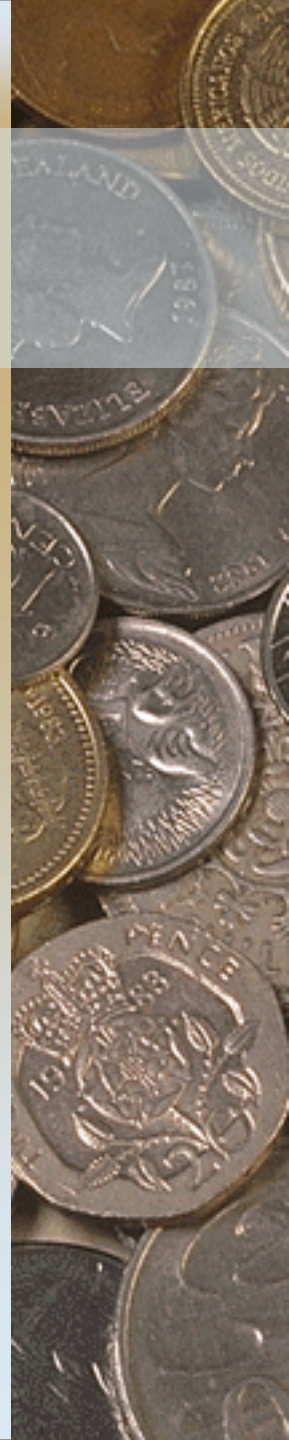
Characteristics of Capitalism

1. Means of production are privately owned.
2. Supply & Demand determine prices
3. Business are free to direct resources into activities that promise the greatest profits.



Capitalism continued

4. The role of government is small
5. High degree of consumer satisfaction
6. Flexible to accommodate change
7. Wealth accumulation is enormous



Disadvantages of Capitalism

- Capitalism many times ignores the poor and disadvantage.
- Produces goods for only those who have the ability and willingness to pay.



Characteristics of Socialism

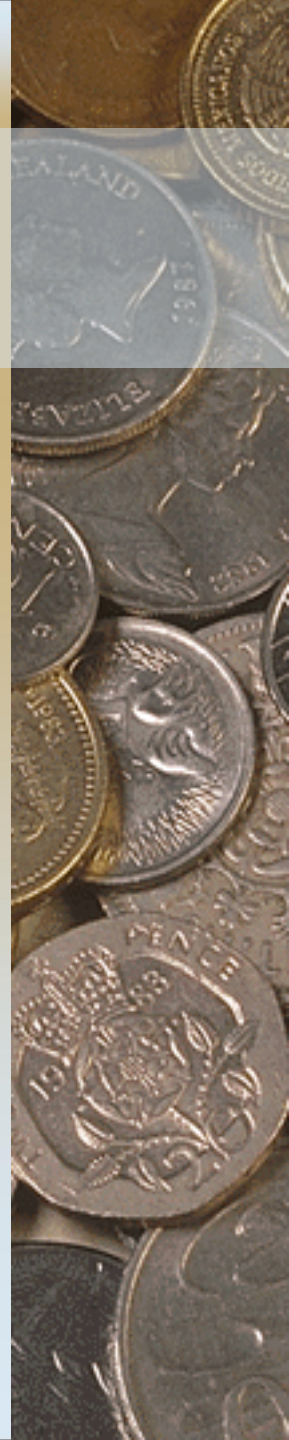
1. **Government owns and runs some, if not most, of the basic productive resources**
2. **Allows most, if not all, of its citizens to share the benefits of society.**
3. **People use the electoral process to influence WHAT, HOW, and FOR WHOM.**



Disadvantages of Socialism

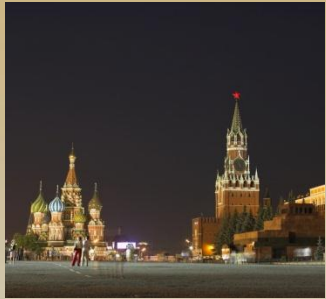


- 1. Normally less efficient than capitalism.**
- 2. Workers are guaranteed jobs – thus driving up the cost of production.**
- 3. Taxes are higher because the government provides a wide range of services.**



Characteristics of Communism

1. **Property is normally collectively owned and labor is organized for the common advantage of the community. (pure communism)**
2. **Central planning sets pricing and the types of goods that will be produced.**
3. **The movement of resources, particularly labor, is strictly enforced. Workers cannot choose their career paths.**



Characteristics of Communism

4. Central planning makes all economic decisions.
5. Individual risk-taking is strictly forbidden.



Disadvantages of Communism

1. Individual economic freedom is lost.
2. Lacks incentives to encourage workers to work hard.
3. Normally neglects consumer goods – the WHAT to produce is determined by central planners.
4. Normally concentrates of military goods first.



Disadvantages of Communism

5. Inefficient use of resources due to central planning
6. Lacks the flexibility to deal with day-to-day changes.

