Economic Systems

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2. Definition and Classification of Economic Systems

LEARNING OBJECTIVES

- What makes an economic system?
- What are the dimensions (institutions) of an economic system?
- How are these institutions important?
- Examples of economic systems

- Institutional approach to defining and classifying ES’s
- “rules of the game”
  * also includes means of __________
- An economic system is a set of ________ and ________ for decision making and the implementation of decisions concerning production, income, and consumption within a given area. (p. 19)
Classification of Economic Systems

Five main institutions:
1. Decision-making:
2. Coordinating mechanism:
3. Property rights:
4. Incentive system
5. Public choice and objectives:

1. Decision-making
   - Centralization vs. decentralization

2. Coordinating mechanism
   The method of coordinating decisions regarding allocation and distribution of G&S’s
   - Command vs. market

3. Property rights
   - Ownership of property and the role of individual rights
     - Control an asset
     - Receive and keep income
     - Transfer ownership
   - Private vs. public ownership
     - Are private rights complete?
   - Other aspects of individual rights
4. Incentive system

- How do you motivate people?
  1. agent's influence over outcomes
  2. principal's ability to check performance
  3. agent's rewards

- Types of incentives:
  a) ______ – appeal to emotions such as compassion, nationalism
  b) ______ – piece rates, bonuses, advancement
  c) ______ – actual or threatened force; supervision, whips

5. Public choice and objectives

- economic, ideological, and political

  - arrangements for making public choices:

    - level of income, output growth, structure of output
    - income distribution and redistribution – equity vs. efficiency
      - poverty programs, unemployment, medical insurance, minimum wages…
    - environmental concerns, military power

- many possible combinations with 5 dimensions (institutions)
  - if 2 outcomes for each: $2^5 =$
  - if 3 outcomes for each: $3^5 =$

- Two basic archetypes of economic systems:
  - Market Capitalism
  - Planned Socialism

- What can you say about each of the five institutions in each of these economic systems?
- Can you name some other economic systems?