LEARNING OBJECTIVES

- How does an economic system impact economic outcome?
- How do we evaluate performance of an economic system?

Economic Outcomes

- What is an economic outcome? Name few.
- In general, several inputs are combined to achieve the final output
- Inputs:
  - environmental factors
  - economic systems
  - policies
- Output:
  - economic outcome
Outcome Evaluation

- Objective:
  maximize economic outcome given the constraints imposed by the environmental factors, the economic system, and policies.

- Then, it is simple to compare economic outcomes across different economic systems – a system with the maximum economic outcome performs the best.

- Or, is this the end of the story? Can you think of any problems with this analysis?

Criteria:
- economic growth
- efficiency
- income distribution (equity)
- stability (business cycle)
- viability of the ES

1. Growth
- increase in the volume of real output
- output → GDP per capita (most commonly used)
  - Human Development Index (life expectancy, infant mortality, literacy, nutrition…) highly correlated to GDP per capita.
- problems in using GDP per capita for comparison?
II. Efficiency

- captures ___________ of an economy → compares the actual output to the maximum possible output given inputs.
- ______ efficiency: how could the existing resources be reallocated to increase current output?
- ______ efficiency: is the long-run value of output being maximized?
- intensive vs. extensive growth
- The problem of _______________ !!

III. Equity (inequality)

- distribution of wealth, income and opportunity = ________ curve and the ____ coefficient

IV. Stability

- no significant negative _________ fluctuations
  - business cycle → what is affected?

V. Viability

- can the system _________?
- is the economic system _________?
- is it sustainable in the use of its natural resources? (______________ sustainability)

Is this list of criteria exhaustive?
Can a country pursue all goals simultaneously?