

Economic Systems Study Guide

“What do I need to know about the economic systems we’ve been discussing for this unit test and the rest of this semester?”

Remember, we are establishing a general ideological/theoretical framework for these economic systems here. Over time, we will continue looking at which aspects of these economic principles were put in practice at different times/places throughout history.

• Economic Liberalism (AKA Free Market/Free Enterprise/Capitalist/Laissez Faire Economy)

- Who popularized the system and when?
- What was the historical context for this development? (*In other words, what were Enlightenment philosophers like Smith challenging?*)
- What is the basic theory?
 - Consider: How is self-interest connected to serving the needs of society? In other words, how is people following their own self-interest supposed to limit suffering and improve society as a whole?
 - Make sure you can explain how these concepts/vocab words fit in:
 - How are goods/resources allocated/distributed?
 - Perspective on private property vs. collective ownership (nationalization of industries)
 - Role of the government
 - Benefits of competition
 - Protection of the consumer
 - Free-choice & voluntary exchange
 - Perspective on slave labor/coerced systems vs. free labor
 - Incentives within this system (2)
 - Equality of opportunity vs. equality of outcome (Are either of them desirable? Why?)
 - Is Smith a proponent of selfishness?
 - Is there capacity for reform/positive change within a capitalist system *without* government intervention?

• Socialism and Communism AKA Marxism (according to Marx)

- Socialism:
 - Who popularized the idea and when?
 - What was the historical context for this development? (*what was Marx seeing?*)
 - What is the basic theory?
 - Consider: How is this system supposed to serve the needs of society and limit suffering?
 - Make sure you can explain how these concepts/words fit in:
 - Proletariat and Bourgeoisie
 - Means of production
 - Capitalism and inequality (*What is wrong with capitalism according to Marx? In other words, how does it lead to suffering? Does Marx think reform is possible within a capitalist system?*)
 - What does Marx believe is happening to the rich, the poor, and the middle class?
 - What does he think the working class needs to do?
 - Dictatorship of the proletariat (who is it made up of, their role, their goal)
 - Private property vs. collective ownership (nationalization of industries)
 - How are goods/resources allocated/distributed?
 - Is freedom of choice at the individual level important to this system? Why/why not?
 - Incentives within this system

- Communism:
 - What is the connection between this system and socialism according to Marx?
 - What is the basic theory/desirable outcome?
 - Make sure you can explain how these concepts/words fit in:
 - Redistribution of wealth
 - Ideal status of government
 - Hierarchy of any kind (including religious)
 - What would determine the work people do?
 - What would determine the resources people receive?
 - Private property vs. collective ownership (nationalization of industries)
 - Would this system need to be global to be effective for those participating in it?
 - Has it ever been achieved?
- **Mixed-Market Economy:**
 - Basic definition
 - Are most economies mixed economies, with varying degrees of state intervention?
 - Can you give an example of a few countries that are mixed economies?
- What are some tips for engaging in effective/productive evaluations and discussions about economics?
- What questions should you always ask yourself/others when evaluating economic problems and solutions? (see tip #4)
- What things do all economic systems have in common? (what do they think is desirable and undesirable)

Tips for success in your evaluation of and discussions about economics:

1. **Identify your goals** (and find common ground).
2. But don't stop there! Keep going back to those original goals. Don't let yourself be tricked simply by trying - recognize that having good intentions and accomplishing goals are TWO DIFFERENT THINGS. Compassion is not the same thing as *help*. The purity of your intentions is not enough to help anyone!
3. Make sure you don't approach your analysis of options with something to *personally* lose or gain. If you are reading *hoping* to find something that confirms your previous point of view or entering a conversation to "win," you are far less likely to use objective reasoning, and thus less likely to accomplish anything for anyone but *yourself* (which probably isn't your intent).
4. Don't accept oversimplified problem diagnosis *or* solutions.
 - **ALWAYS ASK: COMPARED TO WHAT? WHAT IS CAUSING THAT? WHAT ARE THE COSTS OF THE PROPOSED SOLUTION (BOTH SHORT & LONG TERM)? WHAT HARD EVIDENCE DO YOU HAVE THAT THE PROPOSED SOLUTION WILL ACCOMPLISH WHAT IT IS INTENDED TO?**
5. Beware of arguments that are based entirely on the flaws of another system. Arguing "against" something and arguing "for" something are two different processes.
6. In your evaluation of inequality specifically, make sure to consider all of the causes (for example: the ***pareto distribution***).
 - a. Simple definition: Mathematical equation that reveals how success fractionally increases the probability and acceleration of future success.
 - b. Why it's relevant? It explains one of the reasons why a tiny minority continues to end up with a disproportionate amount of wealth (more than half of the success). Wealth inequality in extremes is a problem that requires solving, and if we don't understand all of the causes, we risk radically underestimating the complexity of the problem!