



# Chapter 2: Economic Systems Section 1

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# **ECONOMICS**

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# Objectives

1. **Identify** the three key economic questions that all societies must answer.
2. **Analyze** the societal values that determine how a country answers the three economic questions.
3. **Define** the characteristics of a traditional economy.



# Key Terms

- **economic system:** the structure of methods and principles that a society uses to produce and distribute goods and services
- **factor payment:** the income people receive in return for supplying factors of production
- **profit:** the amount of money a business receives in excess of expenses
- **safety net:** a set of government programs that protect people who face unfavorable economic conditions



# Key Terms, cont.

- **standard of living:** level of economic prosperity
- **innovation:** the process of bringing new methods, products, or ideas into use
- **traditional economy:** an economic system that relies on habit, custom, or ritual to decide the three key economic questions



# Introduction

- What goals and values affect how a society answers the key economic questions?
  - Each society is guided by its economic system, which affects the way in which it does business within the society itself and with other societies.
  - A society's values, such as freedom or tradition, guide the type of economic system that society will have.



# Three Economic Questions

- As a result of scarce resources, societies must answer three key economic questions:
  - What goods and services should be produced?
  - How should these goods and services be produced?
  - Who consumes these goods and services?
- How a society answers these three questions defines the type of economic system that society has.



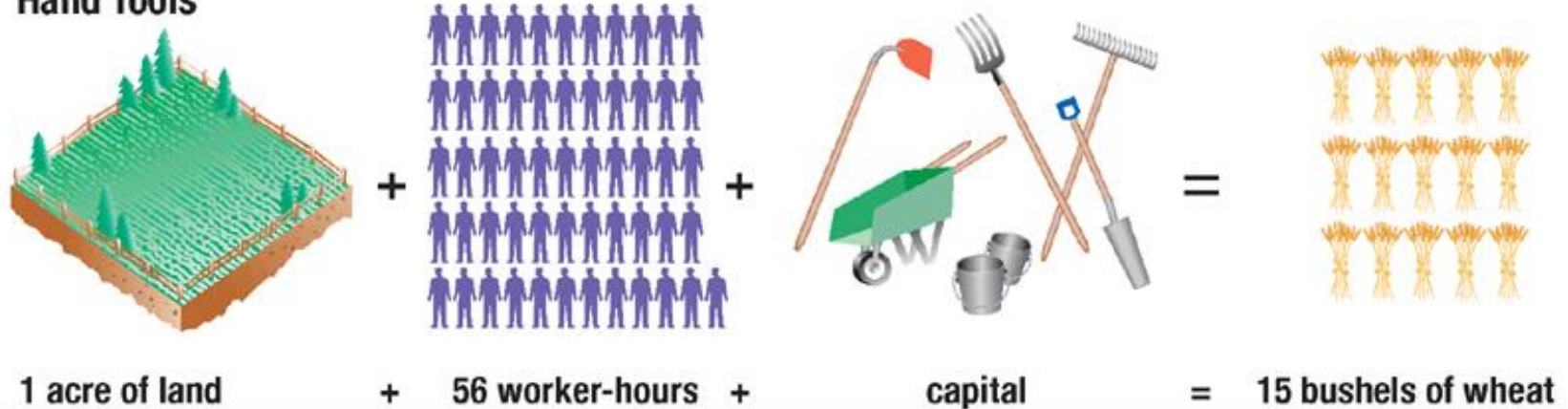
# Questions 1 and 2

- What goods and services should be produced?
  - Each society must decide what to produce in order to satisfy the needs and wants of its people.
  - Because resources are limited, each decision that a society makes about what to produce comes at an opportunity cost.
- How should goods and services be produced?
  - As a society decides how to produce its goods and services, it must consider how best to use its land, labor, and capital.

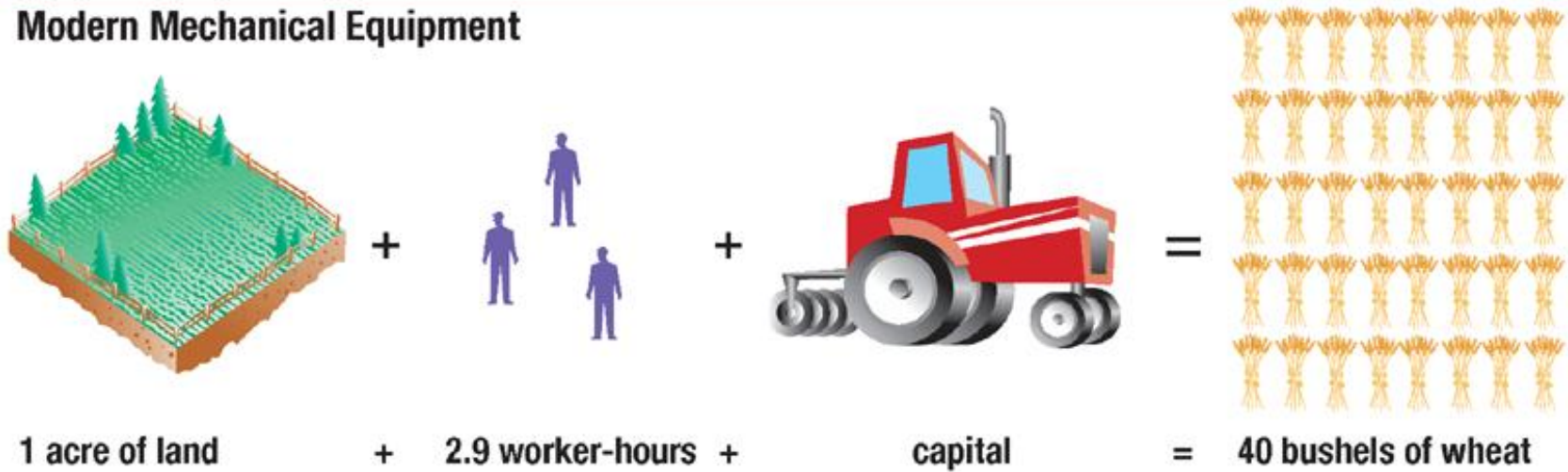


# Combining Factor Resources

## Hand Tools



## Modern Mechanical Equipment





# Question 3

- Who consumes goods and services?
  - This question is largely determined by how societies distribute income.
  - Through factor payments, including profits, societies can determine who will be the consumers of the goods and services produced.



# Economic Efficiency

- Societies answer the three economic questions based on the importance they attach to various economic goals.
- Because resources are always scarce, societies try to maximize what they can produce using the resources they have.
  - If a society can accurately assess what to produce, it increases economic efficiency.



# Economic Freedom and Security

- Some societies limit the economic freedoms of its people.
  - In the United States, Americans face some limitations but, in general, we enjoy a large amount of economic freedom.
- Economic systems also strive to achieve a certain degree of economic security.
  - Ideally, economic systems seek to reassure people that goods and services will be available when needed and they can count on receiving expected payments on time.



# Economic Equity

- Economic equity is another economic goal that is defined differently in different societies. Each society must decide how to divide its economic pie.
- Checkpoint: What are two examples of economic goals?



# Economic Growth

- A society also strives for economic growth. A nation's economy must grow so it can provide jobs for the new people joining the workforce.
  - A nation strives to improve its standards of living.
  - Innovation plays a huge role in economic success as well.



# Economic Goals in Conflict

- There are some additional economic goals for certain societies, including environmental protection, full employment, and protecting national industries.
- All societies must prioritize their economic goals, or arrange them in order of importance. Each choice comes with some kind of trade-off.



# Traditional Economies

- The oldest and simplest economic system is known as a traditional economy.
  - Traditional economies rely on habit, custom, or ritual and revolve around the family. There is little room for innovation or change.



# Traditional Economies, cont.

- Traditional economies are usually found in communities that tend to stay small and close.
  - Often these societies work to support the entire community, rather than just themselves or their immediate families.





# Traditional Economies, cont.

- Societies with traditional economies are successful if they meet their own needs.
  - In many cases, these communities lack modern conveniences and have a relatively low standard of living.



# Review

- Now that you have learned about the goals and values that affect how a society answers the key economic questions, go back and answer the Chapter Essential Question.
  - How does a society decide who gets what goods and services?

