



**Chapter 2: Economic Systems**  
**Section 3**

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# Objectives

1. **Describe** how a centrally planned economy is organized.
2. **Distinguish** between socialism and communism.
3. **Analyze** the use of central planning in the Soviet Union and China.
4. **Identify** the disadvantages of a centrally planned economy.



# Key Terms

- **centrally planned economy:** an economic system in which the government makes all decisions on the three key economic questions
- **command economy:** another name for a centrally planned economy
- **socialism:** a range of economic and political systems based on the belief that wealth should be distributed evenly throughout society



# Key Terms, cont.

- **communism:** a political system in which the government owns and controls all resources and means of production and makes all economic decisions
- **authoritarian:** describing a form of government which limits individual freedoms and requires strict obedience from their citizens



- What are the characteristics of a centrally planned economy?
  - A centrally planned economy is characterized by:
    - Government answering the three economic questions
    - Government ownership of land, labor, and capital
    - Opposition to private property, free market pricing, competition, and consumer choice



# How Central Planning Works

- Checkpoint: Who makes key decisions in a centrally planned economy?
  - In a centrally planned economy (also known as a command economy), the government, rather than individual producers and consumers, answer the key economic questions.
    - The government owns both land and capital.
    - The government also controls where people work and what they are paid.



# Command v. Free Market

- Command economies operate in direct contrast to free market systems.
- Command economies oppose:
  - Private property
  - Free market pricing
  - Competition
  - Consumer choice



# Socialism

- The term socialism describes a range of economic and political systems based on the belief that wealth should be evenly distributed throughout society.
- Socialists argue that economic equity can only exist if the centers of economic power are controlled by the government or by the public as a whole, rather than by individuals or corporations.





# Market Socialism

- In some nations, like Sweden, socialism coexists with free market practices.
- This is known as “market socialism.”
  - Under this system the government uses its powers of taxation to redistribute wealth and provide extensive services.



# Communism

- Checkpoint: What beliefs did Karl Marx hold about capitalism?
  - Under communism, the central government owns and controls all resources and means of production.
    - Communism derived from the writings of Karl Marx who believed that labor was the source of all value but that under capitalism, all the profit created by laborers ended up in the hands of the property owners.
    - The inevitable cost of capitalism according to Marx was the exploitation of workers and an unfair distribution of wealth.



# The Soviet Union

- The Soviet Union became the world's first communist state in 1917 and remained so until it broke up in 1991.
  - Soviet economic planners sought to build power and prestige and allocated the best land, labor, and capital to heavy industry.
  - This decision had a harsh effect on factories that made consumer goods.



# The Soviet Union, cont.

- Shortages were a recurring problem in the Soviet Union. Consumers would often wait in long lines at stores, only to discover that there was nothing to buy.



- Government planners controlled every aspect of the Chinese economy from 1949 until the late 1970s.
  - The government initially tried to keep some of the farmland private but by the 1950s, the government forced many peasants onto farming communities.
  - This caused farm production to drop sharply.
  - Facing shortages, the government eased its control over the communes.



# China, cont.

- By the 1970s, China gave more farmland to private owners.
- Today, China allows more economic freedom than in the past, which has given China's economy a huge boost.



# Disadvantages

- Nations with command economies often have trouble meeting the basic economic goals.
  - The complex bureaucracy of a command economy is not efficiently run and does not adjust quickly to market changes.
  - There is minimal, if any, economic freedom.
  - Innovation is not rewarded and thus economic growth is stilted.
  - There is no economic equity.
- However, command economies do guarantee jobs and income and can be used to jump-start selected industries.



# Review

- Now that you have learned the characteristics of a centrally planned economy, go back and answer the Chapter Essential Question.
  - How does a society decide who gets what goods and services?

