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*Shaping Lives...
Empowering Communities...*

The Three Problems of Economic Organization

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Two Key Issues

- Scarcity
- Efficiency

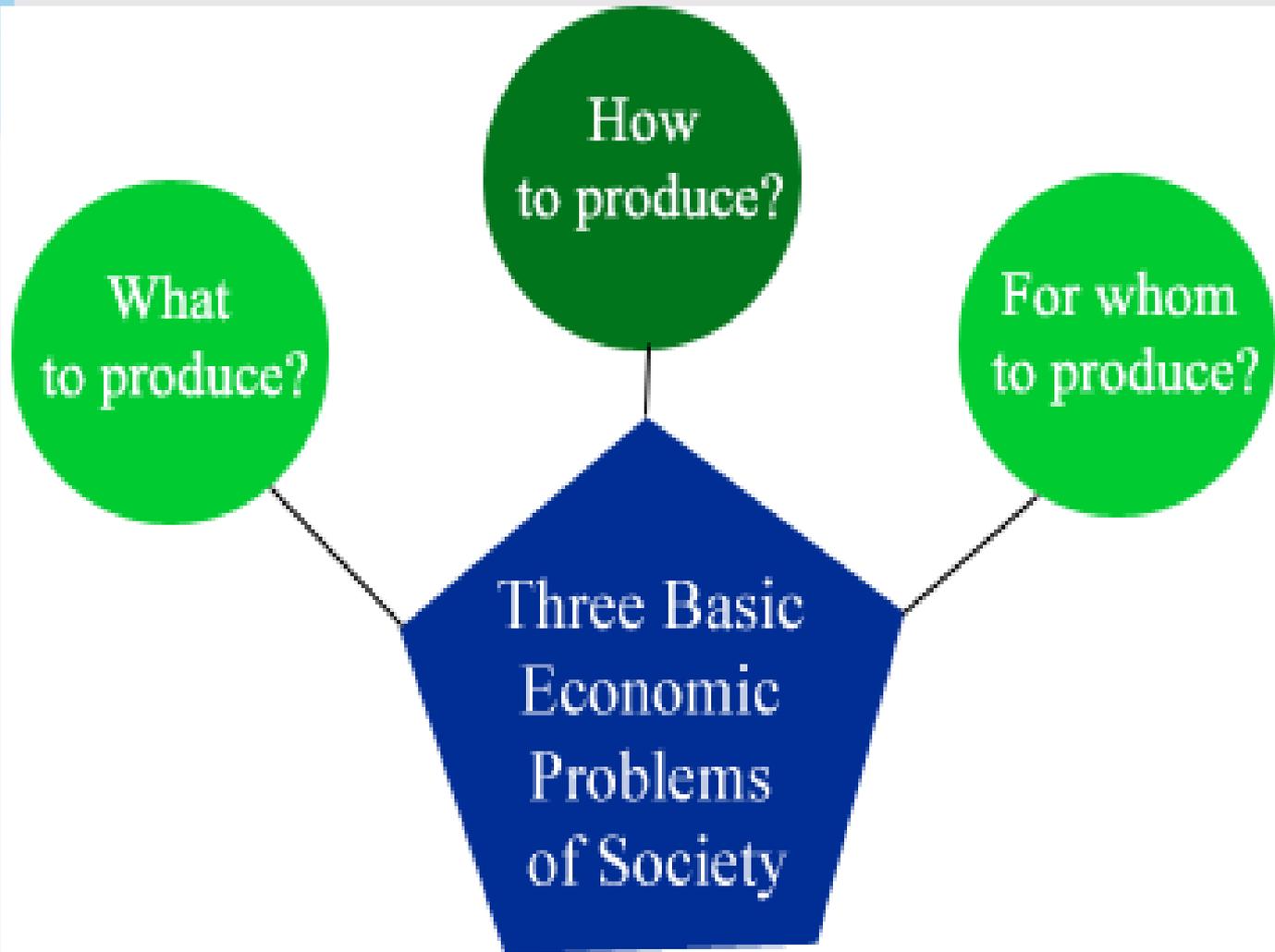




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Three Basic Problems





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What to Produce?

- *What* commodities are produced and in what quantities?
- Will we produce pizzas or shirts today?
- A few high quality shirts or many cheap shirts?
- Will we use scarce resources to produce many consumption goods (like pizzas)? Or will we produce fewer consumption goods and more investment goods (like pizza-making machines), which will boost production and consumption tomorrow?



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How to Produce

- *How-* To determine who will do the production, with what resources, and what production techniques to be used
- Who farms and who teaches?
- Is electricity generated from oil, from coal, or from the sun?
- Will factories be run by people or robots?



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For Whom to Produce?

- Who gets to eat the fruit of economic activity?
- How is the national product divided among different households?
- Do high incomes go to teachers or athletes or autoworkers or venture capitalists?
- Will society provide minimal consumption to the poor, or must people work if they are to eat?



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Compare how traditional, command, and market economies answer the 3 economic questions of:



**What to
produce?**



How to produce?



**For whom to
produce?**



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Decisions in market Economy

- Individuals and private firms make the major decisions about production and consumption.
- Firms produce the commodities that yield the highest profits (the *what*) by the techniques of production that are least costly (the *how*)
- Consumption is determined by individuals' decisions about how to spend the wages and property incomes generated by their labor and property ownership (the *for whom*)
- The extreme case of a market economy, is called a **laissez-faire** economy.



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Decisions in Command Economy

- The government makes all important decisions about production and distribution
- The government answers the major economic questions through its ownership of resources and its power to enforce decisions



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Mixed Economy

- All societies are now **mixed economies**, with elements of market and command
- Economic life is organized either through hierarchical command or decentralized voluntary markets
- Decisions are made in the marketplace. But the government plays an important role in overseeing the functioning of the market
- Governments pass laws that regulate economic life, produce educational and police services, and control pollution.



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Happy Learning

