



Centurion
UNIVERSITY

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

The Three Problems of Economic Organization

Dr. Madhumita Das



Centurion
UNIVERSITY

Shaping Lives...
Empowering Communities...

Two Key Issues

- Scarcity
- Efficiency

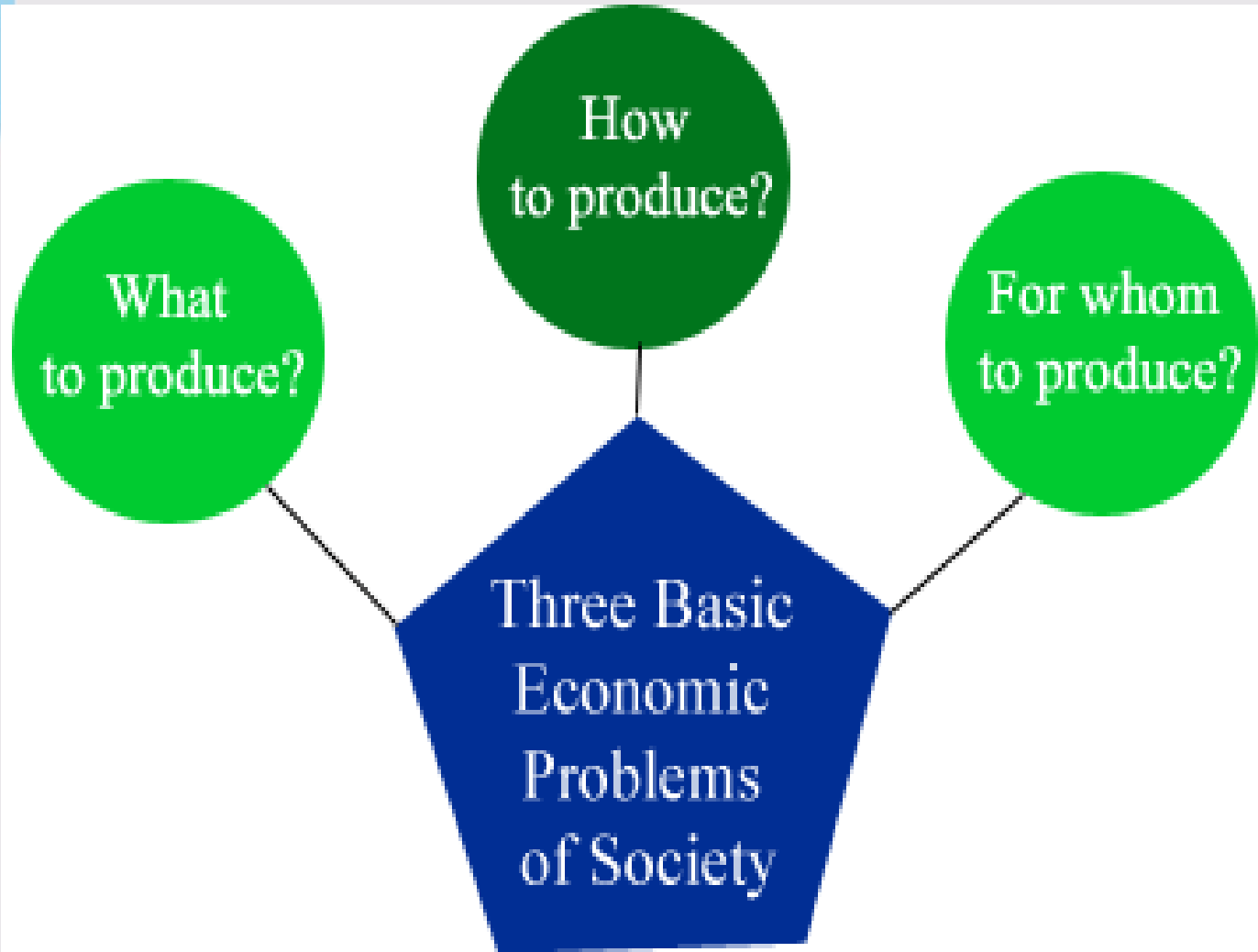




Centurion
UNIVERSITY

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

Three Basic Problems





Centurion
UNIVERSITY
*Shaping Lives...
Empowering Communities...*

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?



Centurion
UNIVERSITY

Shaping Lives...
Empowering Communities...

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?



Centurion
UNIVERSITY
Shaping Lives...
Empowering Communities...

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?



Centurion
UNIVERSITY

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

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



**What to
produce?**



How to produce?



**For whom to
produce?**



Centurion
UNIVERSITY

Shaping Lives...
Empowering Communities...

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.



Centurion
UNIVERSITY

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

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



Centurion
UNIVERSITY

Shaping Lives...
Empowering Communities...

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.



Centurion
UNIVERSITY

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

Happy Learning

