



# AP Microeconomics Webinar

## Topic 1.4 - Resource Allocation & Economic Systems

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# Agenda

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- *Warm Up*
- *Content Delivery - Resource Allocation & Economic Systems*
- *Topic 1.4 Student Activity & Extension*
- *Wrap Up & Evaluation*



# Learning Targets

1. Explain the three main economic questions faced by each society: what to produce, how to produce it, and who consumes what is produced.
2. Discuss the types of economic systems and give examples of how these economic systems coordinate the allocation of resources.
3. Determine the economic incentives provided by markets in each system and describe how the government affects those incentives.



# 3 Basic Economic Questions Every Society Must Answer:

- What to produce?
- How to produce?
- Who gets it?



This tells us which economic system the society operates under.

# 1. Traditional Economies

## Goal: Preserve customs

- Economic questions answered by past rituals, customs.
- Defined roles
- No freedom to make decisions based on wants
- barter
- **Many African Tribes**
- **Australian Aborigines**
- **Inuit**



Create a Twitter handle or BeReal for a person living in a traditional economic system. Then, create a series of hashtag statements related to this economic system.



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Students, write your response!

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## 2. COMMAND ECONOMIES

### GOAL: CREATE SOCIAL EQUALITY



- Economic decisions are made by government.
  - Often quotas, goals
  - 5 Year Plans
  - Great Leap Forward
- Prohibits personal property rights
- Today:
  - North Korea, Cuba, Libya, Saudi Arabia, Iran
- Previously:
  - Soviet bloc, USSR (1991)
  - China (1978) still somewhat
  - India (1991)
  - Nazi Germany

Create a Twitter handle or BeReal for a person living in a command economic system. Then, create a series of hashtag statements related to this economic system.



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### 3. Market Economies

Goal: promote free economic choices

- People and firms act in own best interests
- Buyers and sellers get together
- "Votes"
- NO govt intervention
- Examples (close to):
  - US, Canada, Japan, South Korea, Singapore
  - Germany, Great Britain, France



Create a Twitter handle or BeReal for a person living in a market economic system. Then, create a series of hashtag statements related to this economic system.



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# ADVANTAGES

<b>Traditional</b>	<b>Command</b>	<b>Market</b>
Defined Roles  Stable, predictable	Can change quickly  Social programs at little to no cost	Adjusts to change gradually  Freedom  Decisions are decentralized  Variety  Consumer satisfaction

# DISADVANTAGES

<b>Traditional</b>	<b>Command</b>	<b>Market</b>
Discourages new ideas  Stagnation  Lower standard of living	Wants/needs not met  Lack of incentives  Large bureaucracy (consumes resources)  Little flexibility  New/different ideas discouraged	Rewards only productive resources. Leaves out too old, too young, too sick.  Competition and change leads to uncertainty  Lack of public goods  Market failures

# Mixed Economies

Economies around the world are a mixture of these three systems, and are called **mixed economies**.

–Also known as mixed market economies, as they combine elements of market and command systems.

–Government has some control over economy, but producers and consumers play a huge role in economic decisions.

4. Complete the following table:

	Pure command economy	Mixed economy	Pure market economy
Who answers the three basic economic questions?			
What degree of economic freedom exists for individuals?			
Under which type of economic system would you prefer to live and why? Be prepared to discuss your answers with your classmates.			

# Communism vs. Capitalism

“Father” of Communism

--> KARL MARX

- German economist, historian, philosopher, social scientist, revolutionary
- Das Kapital & Communist Manifesto
- Communism --> Economic system developed in response to the abuses of Ind.Rev.
- Based on ideas of SOCIALISM --> public ownership --> factors of production (Land, Labor, Capital) for benefit of all
- “Collective Ownership”

“Father” of Capitalism

--> ADAM SMITH

- Scottish economist & philosopher, University Professor
- The Wealth of Nations
- Capitalism --> Economic system that helped bring on the Ind.Rev.
- \*private ownership --> factors of production for private profit (Land, Labor, Capital)
- Based on ideas of “Laissez Faire”, & the “Invisible Hand”, & “Free Market” economics

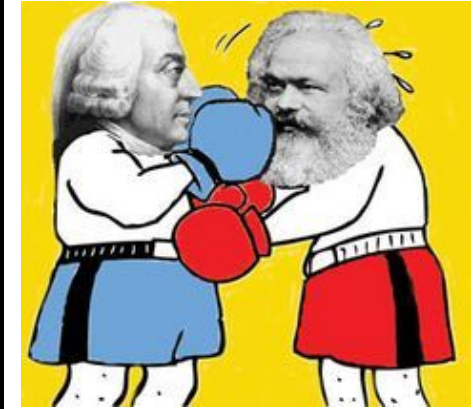
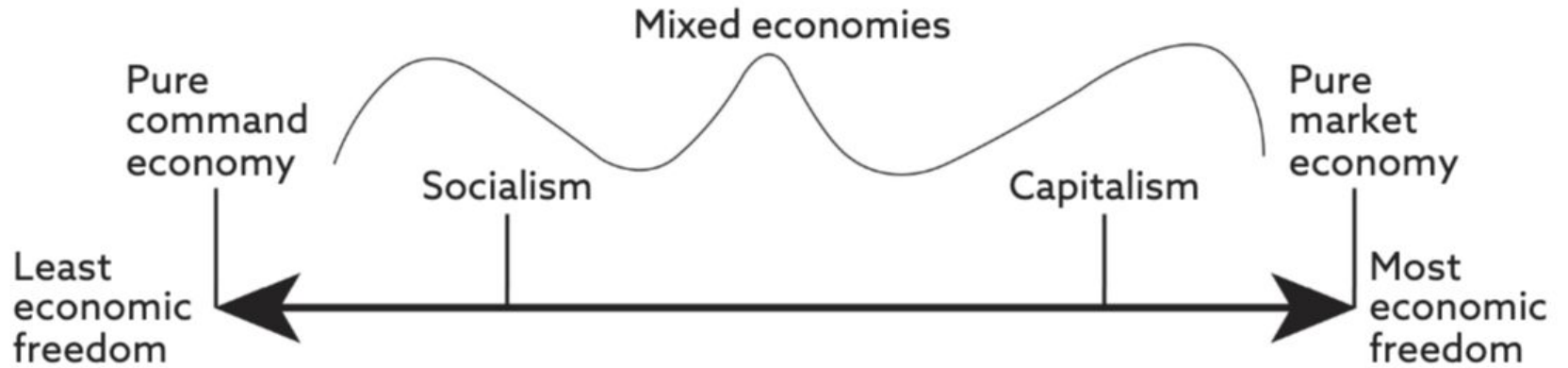




Figure 1-4.1

## ECONOMIC SYSTEMS





# 4 Key Institutions of Capitalism

1. Rule of Law
2. Markets
  - a. prices, voluntary
3. Private Property
4. Entrepreneurship

Learning Target: I can evaluate the institutions of capitalism and how countries around the world uphold them.



# Your Economic Analysis

Institution	Present/Absent	Evidence	More Market/Command?
<i>Markets</i>			
<i>Private Property</i>			
<i>Rule of Law</i>			
<i>Entrepreneurship</i>			



Figure 1-4.1  
ECONOMIC SYSTEMS

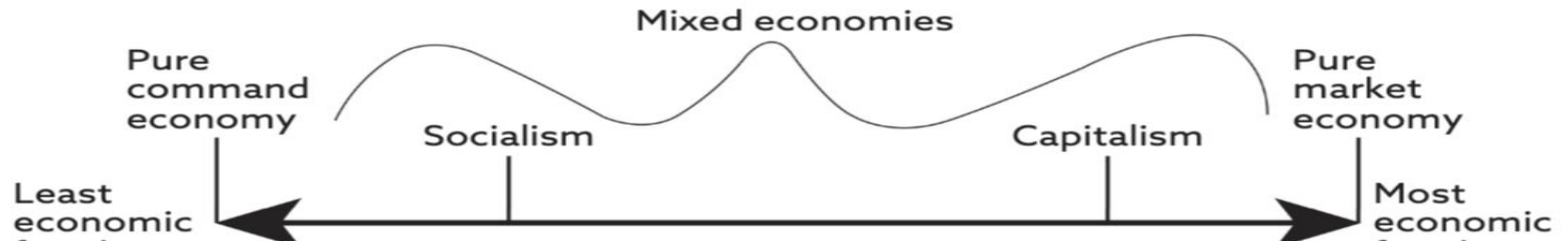
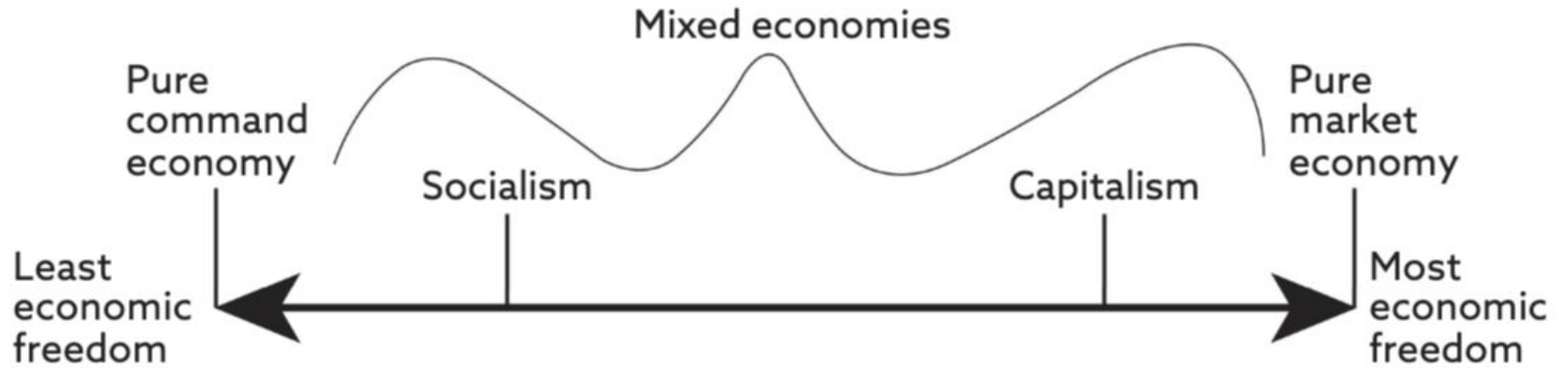




Figure 1-4.1

## ECONOMIC SYSTEMS



# Debrief

Where did you place your country on the spectrum? Why?

How has your view of capitalism changed as a result of this exercise?

# Application

**Command** economy (*example*): \_\_\_\_\_

Unit of money:

Main products:

Evidence of traditional economy:

Evidence of market economy:

Unemployment rate:

Biggest present economic problem:

Breakdown of the labor force (*as a percent of the workforce*):

agricultural \_\_\_\_\_ industrial \_\_\_\_\_ services \_\_\_\_\_

Average income per person:

Percentage of population below the poverty level:

Debt-to-income ratio:

Inflation rate:

**Market** economy (*example*): \_\_\_\_\_

Unit of money:

Main products:

Evidence of traditional economy:

Evidence of command-type economy:

Unemployment rate:

Biggest present economic problem:

Breakdown of the labor force (*as a percent of the workforce*):

agricultural \_\_\_\_\_ industrial \_\_\_\_\_ services \_\_\_\_\_

Average income per person:

Percentage of population below the poverty level:

Debt-to-income ratio:

Inflation rate:

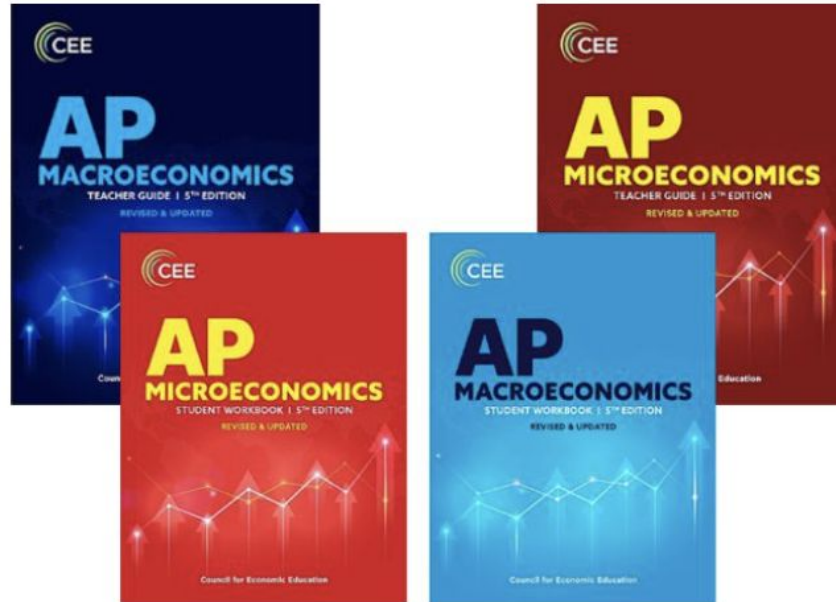
# Debrief

Under which type of economic system would you prefer to live and why?



Students, write your response!

# Content Delivered Thanks to....





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