

Types of economies and how they attempt to solve the basic economic problem



Different economies have different solutions to the basic economic problem. The different economies included are traditional, market, planned and mixed. Many different countries embrace the following varying economies. Countries included would be the United States of America, which embraces a mixed as well as market economy, Papua New Guinea, Brazil as well as other Asian and African countries embrace a traditional economy, countries such as Cuba associate with a planned economy, and countries including Cuba and the United States follow a mixed economy. All these economies are different and have different answers to questions such as what to produce, how to produce and for whom to produce.

Firstly, there is the traditional economy that is a system where the allocation is based on the basis of inheritance. It is an economy, which uses prehistoric instruments and techniques. In a traditional economy, everything is mostly based on what is popular, production responds to what is in demand from the people. An example of this would be in the prehistoric times where farmers grazed animals and produced food. Enough food would be produced for the people living in the area. A farmer would produce the food for the people and the farmer would get something in return. Although this economic system is rather old fashioned it is still available in some locations such as South America including the nations of Papua New Guinea and Brazil. It is also available in a number of African and Asian countries.

The exchange and trading of goods and services is what takes place in a market economy. This is a form of a free market hence also being known as “ free market economy”. In a market economy, what to produce is

determined by what the people demand. For example, in a city with no

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roads, cars would not need to be produced or traded due to the fact that there is no demand for them. In terms of how to produce, a market economy is the complete opposite of a planned economy where the government decides what to produce and in what quantities to produce, a market economy allows for much more freedom. Everything in a market economy is produced for people in exchange in goods or services. An example would be an individual purchasing an automobile due to their need of transportation; money would need to be exchanged for the product. In a market economy, there is something known as the “invisible hand” which represents the supply and demand market forces. This defines what is produced, in what quantity and at what price. One example of a country, which embraces such an economy, would be the United States of America, which actually includes more market economy traits than Western Europe countries.

As mentioned earlier, a planned economy is the complete opposite of a market economy. While a market economy is towards production being based on the supply and demand, or the “invisible hand”, a planned economy is mostly government controlled with the government deciding everything. In a planned economy, the government decides what gets produced, at what quantity and what price. Planned and market economies blend together in mixed economies. In this case, the government would have some input in such economic problems; however, the rest of the activities will be driven by the decisions of the buyers and sellers. No country has a completely free economy in a strict sense, meaning that there will always be some government involved, however we label the market economies with the fact that the government intervening is very minimal. Two countries,

which are known as one of the best examples of, planned, or command economy would be China as well as former USSR. Despite the fact that there are many countries today switching from such an economy to mixed or free economies, other nations including North Korea and Cuba still embrace this economy in its full form. The state-owned as well as the private enterprises in such economies receive guidance and directives from the government regarding economic problems including what to produce, how to produce and for whom to produce.

In a mixed economy, both capitalism and socialist economies are found. This economy is basically a mix of a rather free economy such as a market combined with a planned economy as well as avoiding the issues with capitalism and socialist economies. Most countries have a mixed economy including the United States of America as well as Cuba. It was mentioned earlier that the United States embraces a market economy and Cuba goes by the planned economy, however, it must be taken into consideration that no country strictly uses one economy. For example, if a country had a strict market economy there would be no taxes, environmental laws, government owned businesses and other aspects of that nature.

In conclusion, the different economies used by countries include traditional, market, planned and mixed. Countries such as the United States of America associate with market as well as mixed. Traditional economy is used in Papua New Guinea, Brazil as well as many other Asian and African countries.

Planned economy is found in countries such as Cuba and finally mixed is used by countries such as the United States as well as Cuba. Stating again

that there is no country, which associates with an economy strictly, meaning <https://assignbuster.com/types-of-economies-and-how-they-attempt-to-solve-the-basic-economic-problem/>

that the United States doesn't go by a market economy thoroughly or else the taxes found in the nation would not exist. All four of the different economies have basic economic problems. Questions such as what to produce, how to produce and for whom to produce require answers.