



Why a Constitutional Republic?:
SS.7.CG.3.15
Economic Systems
READING #1

Name: _____

Date: _____



SS.7.CG.3.15 Benchmark Clarification 1: Students will evaluate various economic systems (e.g., free market, socialism).

All major countries around the world have an economy. An **economy** is the wealth and resources of a country or region, including how they produce services and consume goods. In simple terms, economies maintain the way people spend money and the way people make money. Economies are grouped into **economic systems** based on how much **economic freedom** their citizens have. Some governments around the world control both the government and the economy, while other governments allow citizens to produce, trade, or use goods or services legally. There are three major economic systems: capitalism, socialism, and communism.

Capitalism, also known as free market or free enterprise, is an economic system in which private individuals own and control most factors of production. Capitalism supports the idea that the **free market** will regulate itself through **supply and demand** if the government does not interfere. **Supply** is the amount there is of something. **Demand** is how much people want it. When there's more supply than demand, prices go down. When there's more demand than supply, prices go up.

The most common example of capitalism is the United States, where the government is “hands off” with privately-owned businesses, and economic questions are answered by individual buyers and sellers who have the economic freedom to pursue any personal legal interest for profit (money). In the United States, citizens are offered the opportunity to pursue any personal interest that can raise their standard of living, provided that that personal interest does not threaten the public interest, such as attending college, purchasing private healthcare, and owning private transportation; however, the government does not mandate citizens to utilize these services. The government also maintains the standard of living for its citizens by requiring them to pay a moderate tax for essential services such as the military for national defense, law enforcement for local communities, and emergency medical services.

Socialism is an economic system in which the government actively controls the economy and protects the people from private businesses that might take advantage of them. The most common example of socialism is Canada, where the government provides its citizens universal services such as healthcare, education, and public transportation, but requires them to pay a large amount in taxes. The concern with socialism is that citizens cannot choose to refuse these services to lower the amount of taxes they are required to pay. Because every citizen has access to these services, they are usually overcrowded and understaffed.

Communism is an economic system in which the government owns all property and means of production, and all citizens share the wealth. A strong Communist **dictator** and the Communist political party usually rule Communist countries. The most common example of communism is Russia, where citizens' rights, such as freedom of speech, are limited, press is censored, and there is a strong military presence daily to ensure the government is not criticized. Communist societies threaten freedom and democracy and are known for not having free and fair elections to keep dictators in power.

capitalism – an economic system in which private individuals own and control most of the factors of production.

communism – an economic system where the government owns all means of production and eliminates private property and private business.

dictator - a military leader who becomes the head of a country, often by force

economic freedom - the freedom to produce, trade, or use any goods or services in a way that is legal

economic system – the method used by a society to produce and distribute goods and services.

economy – the wealth and resources of a country or region, especially in terms of the production and consumption of goods and services.

free market – an economy free of government regulation

socialism – an economic system where government takes an active role in controlling the economy and protecting the people from private businesses that might take advantage of them.

supply and demand - the way a market regulates itself in a capitalist society