



higher education
& training

Department:
Higher Education and Training
REPUBLIC OF SOUTH AFRICA



GAUTENG
Community Education and Training
CET COLLEGE

Economics and Management Sciences: EMSC4 LESSON 7

Unit Standard: 13996 – Major Economic Systems are Identified and Discussed

At the end of the lesson, learners should be able to:

- Identify and explain different economic systems.
- Compare characteristics of different economic systems.
- Discuss advantages and disadvantages of different economic systems.
- Outline the impact of economic systems on local communities.





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1. MAJOR ECONOMIC SYSTEMS DISCUSSED

An economic system refers to a system of production, resource allocation and distribution of goods and services within a society (country). The major economic systems are capitalism, socialism, communism and mixed economy

- 1.1 Capitalism - it is an economic system in which trade and industry are controlled by private owners for profit.
- 1.2 Socialism - it is an economic system in which trade and industry are regulated and controlled by the community as a whole.
- 1.3 Communism - is an economic system in which trade and industry are regulated and controlled by the government.
- 1.4 Mixed economy - is an economic system in which trade and industry is controlled by private individuals as well as the government.

2. CHARACTERISTICS OF DIFFERENT ECONOMIC SYSTEMS ARE IDENTIFIED AND EXPLAINED

Capitalism	Socialism	Communism	Mixed economy
<ul style="list-style-type: none"> • Private ownership of factors of production. • state maintains law and order • Freedom of choice for consumers. • supply and demand determine the price of goods and services • freedom of movement • competition is allowed 	<ul style="list-style-type: none"> • basic industries are owned by the state • the state make decisions • production factors are owned by the government • the aim is to equally distribute income • no competition between state controlled institutions 	<ul style="list-style-type: none"> • the state owns and controls all industries • State decides on production as to what, where and when to produce. • resources are not used efficiently • economy and consumer goods are under state ownership • state determines prices of goods and services • there is no competition 	<ul style="list-style-type: none"> • focus on the individual's needs through the market • the state provides collective goods or services e.g. education, health and welfare, roads and infrastructure • the interest of the communities are protected • The production and distribution is determined by the market. • the state co-ordinates economic activities • competition is allowed

3. ADVANTAGES AND DISADVANTAGES OF DIFFERENT ECONOMIC SYSTEMS ARE EXPLAINED

ADVANTAGES

Capitalism	Socialism	Communism	Mixed economy
<ul style="list-style-type: none"> • freedom of choice on spending, saving and investing money. • free to compete on market • profit is the motive • labour used efficiently • freedom to choose a career 	<ul style="list-style-type: none"> • people are more secure because the state intervenes • small fluctuations in the exchange rate • income is evenly distributed 	<ul style="list-style-type: none"> • there is full employment • income is fairly distributed • free essential services e.g. housing ,medical care, education etc. 	<ul style="list-style-type: none"> • private needs are supplied by the economy • central planning provides an orderly society • ability of state to regulate and intervene helps to protect unfair competition • state can meet a disciplined market place

DISADVANTAGES

Capitalism	Socialism	Communism	Mixed economy
<ul style="list-style-type: none"> • uneven wealth distribution • inequality of economic and political power • market driven system giving rise to unemployment • big multinational companies control mining, production and consumption 	<ul style="list-style-type: none"> • income is not evenly distributed • freedom of choice is restricted • poverty exist as there is no freedom to earn much • businesses are inefficient due to no profit motive • there is less 	<ul style="list-style-type: none"> • corruption prevails • production is low (no incentives) • freedom of choice is limited • citizens are demoralized • state dictates and it is the sole employer • there is economic decline 	<ul style="list-style-type: none"> • The state's role in the economy can increase to a point where private initiatives and economic growth and development can be badly affected. • The market can play a big role in such a way that society's collective

	creativity as the state influence everything		needs can be neglected.
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4. THE IMPACT OF ECONOMIC SYSTEMS ON LOCAL COMMUNITIES

Topic	Capitalism	Socialism	Communism	Mixed economy
Employment	Employment depends on demand-there is more unemployment during economic recession	Employment is less	There is full employment	Combines employment factors of capitalism and socialism
Choice of products	free choice of products	More restricted choice of product	no choice of product	Free choice of products
Prices	Prices are market related	Prices are fixed by the authority	Prices are fixed by the state	Some prices are fixed by government and some are determined by the market
Competition	Free competition	No competition between government and privately owned businesses	No competition	Free competition

Activity 7

Various options are given as possible answers to the following questions. Write only the letter (A-D) next to the question number e.g. 1.1.6 D

- 1.1. When the state owns and controls all the industries it is referred to as. (1)
- A. Traditional Economy
 - B. Capitalism

C. Mixed economy

D. Communism

1.2. One of the following statements is NOT a characteristics of socialism (1)

A. Lack of motivation

B. State own all factors of production

C. There is free competition

D. Small businesses privately owned

1.3 One of the following systems is not an economic system. (1)

A. Socialism

B. Capitalism

C. Employment

D. Communism

1.4 Economic systems have an impact on local communities based on the following factors: (1)

A. Advertising

B. Marketing

C. Employment

D. Planning

2. Differentiate between a socialist economic system and a capitalist economic system. (4)

3. Give any 2 disadvantages of communism. (2)

Total: (10)