

**1.1.7 Practice: Comparing Economic Systems**

Practice

Principles of Business, Marketing, and Finance Sem 1

Name: _____

Points Possible: 40

Date: _____

Reflect (5 points)**Answer the questions about the characteristics of various economies.**

1. In which type of economy are individuals least likely to determine which products they consume, and why? (1 point)

2. A Japanese car company produces its cars in the United States.

a) How does the value of the cars produced by the Japanese company in the United States impact the United States' Gross Domestic Product (GDP), and why? (1 point)

b) How does the value of the cars produced by the Japanese company within the United States impact the United States' Gross National Product (GNP), and why? (1 point)

3. In which type of economy would both private businesses and the government influence the factors of production, and why? (1 point)

4. In which type of economy is a business owner most likely to benefit from free enterprise? (1 point)

Analyze (10 points)

Analyze the advantages and disadvantages associated with various economies.

1. Audrey is debating the superiority of a market economy with her friend Bill. Audrey supports her argument in favor of a market economic system with Adam Smith's concept of the invisible hand. How might Bill effectively respond to Audrey in defense of a mixed economic system? Use the following questions to form a complete argument.

a) Explain Adam Smith's concept of the invisible hand as it relates to market economies. (1 point)

b) Give an example of a situation in which an individual's pursuit of economic self-interest may not benefit but instead harm the rest of society. (2 points)

c) How might a mixed economic strategy guard against this potential harm? (2 points)

2. Why might market economy consumers expect higher quality products than command economy consumers? (2 points)

3. How could the Federal Reserve System help guard the U.S. economy against economic instability?

a) Explain the function and purpose of the U.S. Federal Reserve System. (1 point)

b) How could the U.S. Federal Reserve System curb some of the risk of economic instability? (2 points)

Synthesize (25 points)

Compare and contrast various types of economic systems.

1. When comparing the various relationships between the government and businesses in market and command economies, how might a mixed economy best address the needs of every individual?

a) How much control does the government exert over businesses in a market economy, and what are some of the associated risks and disadvantages? (3 points)

b) How much control does the government exert over businesses in a command economy, and what are some of the associated risks and disadvantages? (3 points)

c) How might a mixed economy guard against the risks and disadvantages associated with market and command economies? (3 points)

2. Compare and contrast the benefits associated with market and command economies. How might a mixed economy successfully acquire similar benefits?

a) What are some of the benefits associated with market economies, and what is responsible for generating those benefits? (2 points)

b) What are some of the benefits associated with command economies, and what is responsible for generating those benefits? (2 points)

c) How could a mixed economy best incorporate aspects of both market and command economic strategies to maintain their associated benefits? (3 points)

3. How has private enterprise strengthened the United States economy? (3 points)

4. Compare economic strategies by filling in the chart: (6 points)

	Market Economy	Command Economy	Mixed Economy	Traditional Economy
Who/what controls what is produced?				
Associated with which type of government/society?				
Associated with which key terms?				
Who/what controls the factors of production and distribution?				

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