

Lesson 6

Entrepreneurship in Different Economic Systems

TIME REQUIRED

Three class periods

CONCEPTS

Economic system	Profit motive
Central economic questions	Private property
Traditional economies	Command economy
Market economy	Mixed-market economy

INSTRUCTIONAL OBJECTIVES

Students

- define economic system
- explain why all countries have an economic system
- identify basic characteristics of a market economy and our mixed-market system
- compare economic decision making in market and command economies
- compare the role of entrepreneurship in market economies and in command economies

RATIONALE

An economic system is a set of rules that governs the production and distribution of goods and services. There are three central economic questions that any economic system must answer—what to produce, how to produce it, and for whom to produce.

A market system is an economic system in which the factors of production are owned and controlled by individuals. The three central questions are answered through decisions made by individuals in the marketplace. Market systems are characterized by individual initiative, private property, the profit motive, a system of prices, decentralized decision making, and limited government involvement in the economy. Entrepreneurs who own businesses in market systems are more likely to be successful when they encourage individual initiative and resourcefulness among employees.

Unlike a market economy, in command economies the three central questions are answered by the government. Command economies rely on government ownership and control of the factors of production. Individuals have relatively little choice in economic decisions. Entrepreneurship is less important than in market economies and in some cases is against the law.

The economic system of the United States is more a market system than any other kind of system. However, our government does make some economic decisions and regulates some business activities. Therefore, our economy is called a mixed-market system. Our mixed-market economy allows entrepreneurs the freedom to make most economic decisions.

MATERIALS

- Student Book of Readings, Reading 6
- Activity 21, What Are the Rules?
- Activity 22, If You Can't Earn a Profit, What's the Point?
- Activity 23, Simulation: What's the Difference? Part I and II and approximately 500 index cards (3" x 5")
- Activity 24, No Place for Entrepreneurship
- Activity 25, Lesson 6, Comprehension Quiz
- Activity 26, Organizing an Economic System for Survival

PROCEDURE

1. Divide the class into small groups and distribute copies of Activity 21, What Are the Rules? Ask students to discuss the situations described and decide as a group what rules were broken. Allow time for the groups to complete the activity.
2. Have each group report their answers for Activity 21. Discuss students' responses. The points to be emphasized in the discussion of each question are indicated below.

Possible answers for Activity 21

- (1) The rule broken is the right of private ownership of property. If a person owns something, others cannot take it without permission. This could happen in an extended family (common in parts of Africa and Asia) that does not recognize individual property rights.

- (2) The rule broken is the right of individuals to determine their own type of work and training. Our government does not have the power to tell us how we will spend our working lives or what type of education we may pursue. In both command and market economies in Europe and elsewhere, the government does have that power.

- (3) The rule broken is the right to keep the products of our labor and to sell or use them as we want. In command economies, that rule is not observed.

- (4) The rule broken is the right to have many competing firms. If there were few producers of a product in this country, other firms would be started that would bring about a wider selection of products offered for sale. This has not happened in command economies.

- (5) The rule broken is the right to use our ideas to our own advantage. If an American has a good idea, he or she can use it as the basis for starting a new business that is intended to earn a profit for the owner. In countries that do not allow private enterprise, the government has the right to claim a person's ideas.

- (6) Most Americans understand the basic rules and values that make up our economic system. This is clear because we know when these rules have been broken.

3. Assign Reading 6 in the Student Book of Readings and the accompanying exercises. or, since some students may find the exercises more challenging than usual, you may prefer to work through the reading and the exercises in class.

4. Use the questions under Check Your Understanding to initiate discussion of Reading 6.

Answers for Check Your Understanding, Reading 6

- (1) An economic system is a set of rules that determine how resources will be used to produce goods and services and how these products will be distributed.

- (2) The three central economic questions that must be answered in all economic systems are: What goods and services shall be produced? How shall these goods and services be produced? For whom shall the goods and services be produced?
- (3) A market economy is an economic system in which the factors of production are owned and controlled by people or groups of people.
- (4) People work in a market economy to satisfy their needs and to be able to buy private property.
- (5) Firms produce goods and services in a market economy to earn a profit.
- (6) In a market economy, the three central economic questions are answered as follows:
 - What to produce?—goods and services that sell
 - How to produce?—in the most efficient manner
 - For whom to produce?—for those who can buy
- (7) Entrepreneurship is important in a market economy because entrepreneurs make many of the basic economic decisions.
- (8) A command economy is an economic system in which the factors of production are owned and controlled by the government.
- (9) In a command economy most economic decisions are made by the government.
- (10) Individual entrepreneurship is less important in command economies because individuals have limited opportunities to make economic decisions.
- (11) A mixed-market economy is an economic system that is most like a market economy but also has characteristics of other types of economic systems.

5. **OPTIONAL** Distribute Activity 22, *If You Can't Earn a Profit, What's the Point?* Allow time for students to read the story. Then initiate discussion by having them

respond orally to the questions. In the discussion, point out how the characteristics of our mixed-market economic system differ from those of the command economy in which Natasha lives.

Answers for Activity 22

- (1) Joslin would decide to buy bags from the source that offers to sell them to her at the lowest cost for the quality she wants. She would pay an amount that was agreed to by that firm and herself.
 - (2) Joslin would employ as many workers as she felt could contribute to increasing her profit and would pay a wage roughly equal to that paid by other firms that employ workers with similar skills.
 - (3) Joslin would charge the price that she believes will earn her the greatest profit. This price is likely to be roughly the same as that charged by other firms that offer bags for sale in the area where her business is located.
 - (4) Joslin would keep her store open during hours in which the revenue generated from sales exceeds her costs of being open.
 - (5) Joslin's weekly earnings depend on the success of her business or her ability to generate income that exceeds her costs.
 - (6) Joslin is likely to work hard to serve her customers in the hope that this will increase her profits and personal income. Natasha does not have this reason to work hard.
 - (7) People have less reason to work hard and to be productive in command economies.
 - (8) The decisions about the three central economic questions are made by the government in command economies. In market economies these decisions are made in a decentralized manner by individuals.
6. Prior to starting Activity 23, *Simulation: What's the Difference?* decide what will be used as incentives for the eight students who will participate in the demonstration, and write this in the appropriate space on

the instruction sheets provided in Part I and Part II of the activity sheet. Organize the class for the demonstration by placing four desks (one for each individual worker) across one side of the front of the classroom, and place a table (for the team of workers) across the other side of the room. Pile approximately 100 index cards on each desk. Divide the remaining index cards into seven or more piles (vary the number of cards in each) and place these in different locations along the side and back walls of the room.

7. To conduct the simulation, proceed as follows:

- Select eight students to play the roles of the individual and team workers.
- Give the four students playing the role of individual workers copies of Part I of Activity 23. Give each of the students on the team of workers a copy of Part II, and assign tasks for workers A, B, C, and D.
- While the workers read the descriptions of their roles, inform the remainder of the class that several of their classmates will demonstrate two different methods of production. The class is to observe the demonstration and be prepared to discuss the following questions: What are the differences? Which method resulted in the production of the greatest amount of goods (approved stacks)? Why?
- Before starting the simulation, ask if anyone (workers or observers) has a question about what he or she is expected to do.
- Give the signal for the workers to begin producing "approved stacks" of cards.
- After one minute instruct the workers to stop production.
- Check the stacks produced by the workers to ascertain which are approved stacks. Write the number of approved stacks produced by each individual worker and by the team of workers on the board.

8. This simulation is designed to demonstrate some of the differences between command and market economies. It emphasizes the value of individual initiative and personal incentive for production.

While results of the production demonstration will vary, generally students who work by themselves for their own personal gain will work more efficiently and produce more approved stacks than the students working in the command-economy situation.

Initiate discussion by asking students what differences they observed to suggest reasons for these differences. Ask students who played the roles of the workers to tell the class what incentives were offered and the role these played in motivating them to work harder. During the discussion, point out that the students who were working alone probably made more stacks because they could decide for themselves how best to do their work. They also had an incentive to work hard, because they kept all the credits they earned for themselves. The students working in a team could do only what they were ordered to do and had to share any credits they earned.

9. Assign Reading 7 in the Student Book of Readings and the accompanying exercises.

ASSESSMENT ACTIVITIES

(Select one.)

Have students complete and discuss Activity 24, *No Place for Entrepreneurship*.

Answers for Activity 24

- (1) The directors of the Computing Center probably did not try to sell this game because they would not have gained any personal reward from having done so.
- (2) They did not produce and sell this game because in a command economy individuals do not have the right to start their own businesses.
- (3) Firms in the United States produced and offered Tetris for sale to earn a profit. Firms in the Soviet Union lacked the profit motive and therefore did not produce the game in large quantities.
- (4) People in command economies have less to gain from working hard and

the instruction sheets provided in Part I and Part II of the activity sheet. Organize the class for the demonstration by placing four desks (one for each individual worker) across one side of the front of the classroom, and place a table (for the team of workers) across the other side of the room. Pile approximately 100 index cards on each desk. Divide the remaining index cards into seven or more piles (vary the number of cards in each) and place these in different locations along the side and back walls of the room.

7. To conduct the simulation, proceed as follows:

- Select eight students to play the roles of the individual and team workers.
- Give the four students playing the role of individual workers copies of Part I of Activity 23. Give each of the students on the team of workers a copy of Part II, and assign tasks for workers A, B, C, and D.
- While the workers read the descriptions of their roles, inform the remainder of the class that several of their classmates will demonstrate two different methods of production. The class is to observe the demonstration and be prepared to discuss the following questions: What are the differences? Which method resulted in the production of the greatest amount of goods (approved stacks)? Why?
- Before starting the simulation, ask if anyone (workers or observers) has a question about what he or she is expected to do.
- Give the signal for the workers to begin producing "approved stacks" of cards.
- After one minute instruct the workers to stop production.
- Check the stacks produced by the workers to ascertain which are approved stacks. Write the number of approved stacks produced by each individual worker and by the team of workers on the board.

8. This simulation is designed to demonstrate some of the differences between command and market economies. It emphasizes the value of individual initiative and personal incentive for production.

While results of the production demonstration will vary, generally students who work by themselves for their own personal gain will work more efficiently and produce more approved stacks than the students working in the command-economy situation.

Initiate discussion by asking students what differences they observed to suggest reasons for these differences. Ask students who played the roles of the workers to tell the class what incentives were offered and the role these played in motivating them to work harder. During the discussion, point out that the students who were working alone probably made more stacks because they could decide for themselves how best to do their work. They also had an incentive to work hard, because they kept all the credits they earned for themselves. The students working in a team could do only what they were ordered to do and had to share any credits they earned.

9. Assign Reading 7 in the Student Book of Readings and the accompanying exercises.

ASSESSMENT ACTIVITIES

(Select one.)

Have students complete and discuss Activity 24, *No Place for Entrepreneurship*.

Answers for Activity 24

- (1) The directors of the Computing Center probably did not try to sell this game because they would not have gained any personal reward from having done so.
- (2) They did not produce and sell this game because in a command economy individuals do not have the right to start their own businesses.
- (3) Firms in the United States produced and offered Tetris for sale to earn a profit. Firms in the Soviet Union lacked the profit motive and therefore did not produce the game in large quantities.
- (4) People in command economies have less to gain from working hard and

therefore do so less frequently than people in market economies who can work for personal profits.

neurial skill in our system than there is in the Soviet system where most economic decisions were made by the government.

- (5) If this game had been invented by an American citizen, he or she could have either sold the rights to the game or have started a firm to produce and sell the game.
2. Have students complete and discuss Activity 25, Lesson 6, Comprehension Quiz.

Answers for Activity 25

Part I

- (1) T
- (2) F—The three central questions that must be answered by all economic systems are: What goods and services shall be produced? How shall these goods and services be produced? Who shall get the goods and services produced?
- (3) T
- (4) F—In command economies people tend not to work as hard because their income does not depend on the value of their labor.
- (5) The question “What shall be produced?” is answered by the government in command economies. This often leads to shortages of products people want.
- (6) Shortages of this nature would lead to higher prices that would encourage entrepreneurs to produce more cigarettes.
- (7) Soviet workers might not have been willing to work hard to produce more cigarettes because their income may not have been related to the quantity of goods produced.
- (8) Many Soviet products were of poor quality because there was no effective competition in the Soviet economy. Firms did not need to worry that their products didn't sell.
- (9) The mixed-market system in the United States requires people to make most economic decisions. Therefore, there is a greater need for individual entrepre-

READING 6 EXTENSION ACTIVITIES

1. Read and complete Activity 26, Organizing an Economic System for Survival.
2. Find a recent newspaper or magazine article about one or more countries that were formerly republics of the Soviet Union and the difficulties they have encountered in trying to make a transition from a command economy to a market economy. Write a summary of the article, citing any distinguishing characteristics of market economies and command economies specifically mentioned.