MODULE 19

Rules of the Game and Economics Systems

Under the '**rules of the game**', countries losing gold were supposed to raise their interest rates and cut their money supply; countries gaining gold were supposed to cut interest rates and increase their money supply. These rules were intended to restore equilibrium in the balance of payments fairly quickly.

What are the 3 rules of economics?

As per Adam Smith who is considered as the Father of economics, the 3 laws of economics are:

1. Law of Self-interest
2. Law of Competition
3. Law of Supply and Demand

Law of Self-interest

In economics, self-interest is the idea that the best economic benefit for all can usually be accomplished when individuals act in their own self-interest.

Law of Competition

Competition law is the field of law that promotes or seeks to maintain market competition by regulating anti-competitive conduct by companies. Competition law is implemented through public and private enforcement. Competition law is known as "antitrust law" in the United States.

Law of Supply and Demand

The law of demand says that at higher prices, buyers will demand less of an economic good. The law of supply says that at higher prices, sellers will supply more of an economic good. These two laws interact to determine the actual market prices and volume of goods that are traded on a market.

What are the rule of the game?

General standards, guidelines, or governing principles of how something is done or how one should behave in a given situation or endeavor, especially those that are informal or unspoken. Unfortunately, smear tactics and name calling are just part of the rules of the game in an election these days.

What is game theory used for in economics?

Economists often use game theory to understand oligopoly firm behavior. It helps to predict likely outcomes when firms engage in certain behaviors, such as price-fixing and collusion.

What is the game in economics?

A game is defined as:

- Game = A situation in which firms make strategic decisions that take into account each other's' actions and responses. A payoff is the outcome of a game that depends of the selected strategies of the players.
- Payoff = The value associated with a possible outcome of a game.

Economics Systems

An economic system, or economic order, is a system of production, resource allocation and distribution of goods and services within a society or a given geographic area.

What are the 4 main types of economic systems?

There are four types of economies:

- Pure Market Economy
- Pure Command Economy
- Traditional Economy
- Mixed Economy

Pure Market Economy

A pure market system involves the free exchange of goods and services and private ownership of property. Institutions and the government do not obstruct the market, and more importantly, they work to protect and preserve the freedom of the market.

What is an example of a pure market economy?

The activity in a market economy is unplanned; it is not organized by any central authority but is determined by the supply and demand of goods and services. The United States, England, and Japan are all examples of market economies.

What are the six major characteristics of a pure market economy?

- Freedom of enterprise
- Little or no government control
- Freedom of choice
- Private property
- Profit incentive
- Competition

Pure Command Economy

A pure command economy is a key aspect of a political system in which a central governmental authority dictates the levels of production that are permissible and the prices that may be charged for goods and services. Most industries are publicly owned. The main

alternative to a command economy is a free market system in which demand dictates production and prices. The command economy is a component of a communist political system, while a free market system exists in capitalist societies.

Cuba, North Korea, and the former Soviet Union all have command economies. China maintained a command economy until 1978 when it began its transition to a mixed economy that blends communist and capitalist elements. Its current system has been described as a socialist market economy.

The command economy, also known as a planned economy, requires that a nation's central government own and control the means of production.

Private ownership of land and capital is nonexistent or severely limited. Central planners set prices, control production levels, and limit or prohibit competition within the private sector. In a pure command economy, there is no private sector, as the central government owns or controls all business.

Traditional Economy

A traditional economy is an economic system in which traditions, customs, and beliefs help shape the goods and services the economy produces, as well as the rule and manner of their distribution. Countries that use this type of economic system are often rural and farm-based.

What is an example of a traditional economy?

Families and small communities often make their own food, clothing, housing and household goods. An example of a traditional economy is the Inuit people in the United States' Alaska, Canada, and the Denmark territory of Greenland. However, most traditional economies don't exist in rich, "developed" countries.

What are traditional economic characteristics?

Traditional economies are those in which customs and traditions are more important than money. Traditional economies are often based on hunting, fishing and gathering or farming.

Often in a traditional economy, there is no surplus and no resources, and bartering is used to exchange for needed goods.

Mixed Economy

A mixed economic system is a system that combines aspects of both capitalism and socialism. A mixed economic system protects private property and allows a level of economic freedom in the use of capital, but also allows for governments to interfere in economic activities in order to achieve social aims.

What are the 3 characteristics of a mixed economy?

A mixed economy has three of the following characteristics of a market economy. First, it protects private property. Second, it allows the free market and the laws of supply and demand to determine prices. Third, it is driven by the motivation of the self-interest of individuals.

Advantages of Mixed Economy:

- It encourages private initiative.
- There is freedom of choice.
- It ensures that income is distributed equitably.
- It ensures economic development.
- It ensures job security and employment.

What is an example of a mixed economy?

A mixed economy consists of both private and government/state-owned entities that share control of owning, making, selling, and exchanging good in the country. Two examples of mixed economies are the U.S. and France. A mixed economy controls the power of monopolies.