

Economics and History Activity 1



Economic Systems

When you hear the word “economics,” you may think of employment and unemployment, money and banking, international trade, or how to start a business. All of these are part of **economics**, which is the system that determines how a limited amount of resources are used to fulfill unlimited human wants. In other words, it is through an economic system that the goods and services people need and want are supplied. Not every society has the same type of economic system, however. Three general types of economic systems exist—traditional, command, and market. Each of these systems answers the following questions in a different way: What goods and services should society produce? How should they be produced? For whom should they be produced?

TRADITIONAL ECONOMY

In a **traditional economy**, economic decisions are based on customs and beliefs handed down from generation to generation. Individuals have little influence over economic decisions. If you lived in a traditional economic system, your parents would teach you to perform the same tasks that they learned from their parents. The early Native Americans had traditional economies. If you were a male member of a Plains people, for example, your father would have taught you to hunt buffalo in the same manner that he had been taught, and you would distribute the food the way it had always been done.

COMMAND ECONOMY

In a **command economy**, like the traditional economy, individuals have very little say in what is produced. Instead, government leaders regulate the economy. They decide what to produce, how to produce it, and who should receive the goods and

services. The European system known as mercantilism was an example of a command economy. **Mercantilism** was an economic system designed to make a country strong and self-sufficient by controlling the resources of its colonies. The basic principles of mercantilism were:

1. A country should have as much gold and silver as possible.
2. A country should export (sell) more than it imports (buys).
3. Countries should use their colonies as a market for their goods and products.
4. Countries should use their colonies as a source of precious metals, raw materials, and agricultural goods.
5. Sea power must be used to protect trade, add to national independence, and increase military might.
6. Population growth in the colonies should be encouraged to increase the colonial labor force.

MERCANTILISM AND THE AMERICAN COLONIES

During the 1600s and 1700s, Great Britain had one of the most important mercantilist economies in the world. Mercantilism helps explain why the British colonized North America in the first place. They hoped to match the spectacular wealth that Spain had acquired from its Central and South American colonies.

Typical of a command economy, Great Britain imposed taxes, tariffs, and a series of laws and regulations on its colonies to control their economies and keep them dependent on the home country. For example, the Molasses Act of 1733 imposed a tax on the American colonists when they imported molasses, sugar, and rum from any country other than Great Britain. The British grew or processed these items in

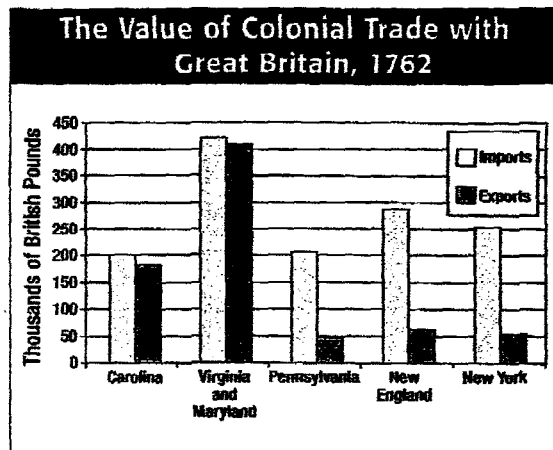
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their Caribbean colonies, but other countries that had Caribbean colonies also produced these items. The Molasses Act made the non-British products even more expensive than the high-priced British goods. Thus, the act attempted to create a British monopoly in the American colonies by preventing other countries from being able to compete. Great Britain wanted to keep the American colonies a British marketplace.

American colonists felt the burden of mercantilism more and more as the British economic restrictions grew tighter. The graph below shows the value of colonial trade with Great Britain in 1762. In that year, all the colonies imported more from Great Britain than they exported to that country. This imbalance added gold and silver to Great Britain's treasury but did not help the economies of the colonies. The mercantilist burden helped motivate American colonists to declare their independence.

MARKET ECONOMY

Once freed from the rule of Great Britain, the colonies created a different economic system known as a **market economy**. In a market system, economic decisions are not made by government or tradition, but by



SOURCE: *Historical Statistics of the United States, Colonial Times to 1957*, p. 757.

individuals looking out for their own best interests. People are free to decide what and how to produce, and they keep the profits they earn through their labor. They also have the right to own property. The market economy regulates itself through competition and the laws of supply and demand. The United States has become the most important market economy in world history.

APPLYING ECONOMICS TO HISTORY

Directions: Use the information you have read and the information in the graph to answer the following questions on a separate sheet of paper.

Recalling Information

1. What is economics?
2. What are the three types of economic systems?
3. What was the goal of mercantilism?
4. Name four principles of mercantilism.
5. What are the general features that make up a market economy?
6. What was the ratio of imports to exports for New York in 1762?

Critical Thinking

7. **Synthesizing Information** The American economy today is a *mixed economy*, with elements of all three types of economic systems. What in the American economy is handled through command? What is handled through tradition?
8. **Drawing Conclusions** Traditional and command economies are criticized for not encouraging innovation and growth. Based on the characteristics of a market economy, why do you think it encourages innovation and growth?