

Economists categorize economies in the following way:

- A **market economy** is characterized by private ownership of the means of production (for example, farms and factories), and supply and demand are responsible for the price and allocation decisions. The United States, Hong Kong, and Germany are market economies.
- A **command economy** is characterized by government (or central) control and ownership of the means of production, and with a central authority setting prices of goods and services and for most allocation decisions. North Korea and Cuba are command (Communist) economies.
- A **developing economy** is one that is not yet industrialized, but is developing. Chad, Ecuador, and Bangladesh are developing nations.

When economists want to compare different economic systems they use the following economic indicators:

- Purchasing power - how much one can buy with a given income.
- Exports - products sold out of area.
- Imports - products brought in for sale.
- Life expectancy - average age at death.
- Literacy – ability to read one’s own language, often influenced by the average level of education.
- Birth rate – number of babies born per year.
- GNP(GDP) - Gross National Product; Gross Domestic Product (value of all goods and services produced in a year).
- Population density - number of people per square mile.
- Land use - ways in which land is used (i.e. farming, grazing, manufacturing, and so on)
- Resources – materials that can be used in production.
- Products - manufactured goods and services.
- Death rate - number of deaths compared with total population per year;
- Average income - average amount earned per household/person;
- Level of foreign investment – amount and quality of money and capital placed in a country’s businesses by foreigners.

Levels of economic development correspond to:

- High levels of per capita GNP, trade surplus, literacy rates, manufacturing, average per family or per capita income, purchasing power, life expectancy, and availability of resources.
- Low levels of birth rate, death rate, population density, and number of foreign investors.
- The type of economic system influences the overall economy in terms of the four basic economic questions.
 - **What to produce?** Constrained by available resources, supply/demand considerations and current technology.
 - **How to produce?** Influenced by the available technology and the relative availability of productive resources.
 - **How much to produce?** Determined by the government, the marketplace, or tradition.
 - **For whom to produce?** Determines who receives the goods and services and in what proportion.

Comparing Economic Indicators

| Geography | United States | North Korea | Brazil |
|--|---------------|-------------|--------|
| Natural Resources | | | |
| How many and what types of natural resources are available? | | | |
| Land Use | | | |
| What percentage of the land is arable (capable of being farmed)? | | | |
| People | | | |
| Life Expectancy at Birth – How long are children born today expected to live? | | | |
| Total Fertility Rate – How many children does each woman have, on average? | | | |
| Literacy Rate – What percentage of people over the age of 15 can read and write? | | | |
| Government | | | |
| Government Type –How are leaders chosen? | | | |
| Government Spending as Percent of GDP (Budget Expenditures Divided by GDP). | | | |
| Military Spending as a Percentage of GDP. | | | |
| Economy | | | |
| GDP Per Capita – What is the value of goods and services produced per person? | | | |
| Population Below Poverty Line – How many people live in poverty? | | | |
| Labor Force by Occupation – What percentage of workers are in agriculture? Industries? | | | |
| Electricity Production | | | |
| Telephones – Main Lines in Use | | | |
| Railways | | | |
| Paved Highways | | | |
| Airports with Paved Runways | | | |

How would you compare the standard of living and development in these three countries?

Questions to Ponder on Economic Development

How can the presence or absence of natural resources and arable land affect a nations' economy, regardless of the type of economic system?

How can life expectancy rates and literacy rates affect the quality of labor in the economy?

How can fertility rates affect the use of scarce resources?

How can per capita GDP and poverty rates indicate standards of living and levels of development?

How can the size of the industrial/service sector and the agricultural employment indicate the level of industrialization?

How can electricity, communication and transportation facilities indicate the potential for industrial growth?

Considering a lack of natural resources and capital how can some nations develop?