

Macroeconomics is concerned with the economy as a whole, or the large **segments** of it. Macroeconomics focuses on such problems as the rate of unemployment, the changing level of prices, the nation's total output of goods and services, and the ways in which government raises and spends money.

In simple words microeconomics tries to explain what the trees are, while macroeconomics tries to explain what the forest is.

Answer the following questions

1. What is your main concern being a voter?
2. What is the most important decision in your life?
3. Why is economics so important?
4. What is economics?
5. How do you understand the word "scarcity"?

Define the following words and expressions.

cradle	affect
scarcity	alternative
brutal truth	rebellion
college campus	entity
issue	inflation
available	segment
to master the rudiments	discrimination
confront	total output
ability	economic roots
imply	service

1.3. TYPES OF ECONOMIC SYSTEMS

The Traditional Economy

These systems are found in **remote** areas such as the Brazilian rain forests, Himalayan mountains, or Indonesian jungles. Such systems may characterize **isolated** tribes or groups, or even **entire** countries. People of this system **are engaged** in agriculture or other basic activities such as fishing or hunting. The goods and services produced in traditional economies **tend** to be those that have been produced as they always have been. In short, the questions of what the traditional society produces and how it is produced are **determined** by slowly changing traditions. People in traditional economies live near a **subsistence level**. They have enough to **sustain** them. In fact, if the harvest is poor, some will be unable to sub-

sist and must move – leave the society – or die. But if the yield is high and there is more than enough for everyone, it will be **distributed** traditionally. For example, much of the produced might go to a tribal chief or landholder, while the rest is distributed according to custom.

The Command Economy

A few years ago the USSR and other eastern European countries, Albania, and China relied on command economies. In those countries, governments owned and **managed** most important natural and capital resources. Government officials **aided** by groups of economists, engineers, industrial specialists prepared **detailed plans** describing how the economy was to function, what goods and services were to be produced. If, for example, they decided to increase grain production, they must issue orders to speed up the manufacture of tractors and / or increase fertilizer imports. Similarly, the planners might **encourage** labor to remain on farms raising their wages or commanding them to do so. Government planning agencies decided how goods and services would be produced in command economies. For example, decisions about where to locate a new automobile assembly plant, the kinds of machinery to use, and the type of labor to **employ** were left to the economic planners. Finally, economic planners, acting on orders from the government's political leadership, decided who would receive the goods and services produced. They did this through different strategies such as **fixing wage**, and **rationing** scarce commodities (like housing and automobiles).

The Market Economy

A market economy is one in which the decisions of many individual buyers and sellers interact to answer the questions of **what, how** and **for whom**. There are other **essential** elements in a market economy. One of them is **private property**. It means that individuals and business firms have the right to own the means of production. Private ownership gives people the **incentive** to use their property to produce things that will sell and earn them **profit**.

This profit motive drives sellers to produce things that buyers want, at prices they are willing to pay. The profit motive also gives sellers the incentive to produce at the lowest possible cost. Why? Because lower costs enable them to 1) increase their profit **margins**, the difference between cost and selling price, 2) **reduce** prices to undersell the competition, or 3) both.

Mixed Economies

There are, however, no pure market economies in the world today. 50 years ago government in the USA **purchased** 15 % of all American goods and services. It now purchases 20 %. This **blend** of market forces and government participation has led to mixed economies where government plays an ever-widening and important role.