Command Economies

SAFA Financial Literacy Lesson

What are Command Economies?

A command economy is a type of economy in which the state plans economies aspects, controlling investment, prices, and other factors in a market.

Characteristics of a Command Economy

Economic Planning

Limited Competition(Due to government restrictions) and State-Owned Monopolies

Significant Regulation and Restrictions

Collectivization

Example of a Command Economy: USSR

Stalin’s Five Year Plans- Good example of economic planning to achieve a goal

State control of businesses- demonstrates limited competition due to difficulty for new sellers to enter the market

Many production quotas and restrictions were employed as part of economic planning.

Farms were owned by the state(collective agriculture).

Differences with Free Market Economies

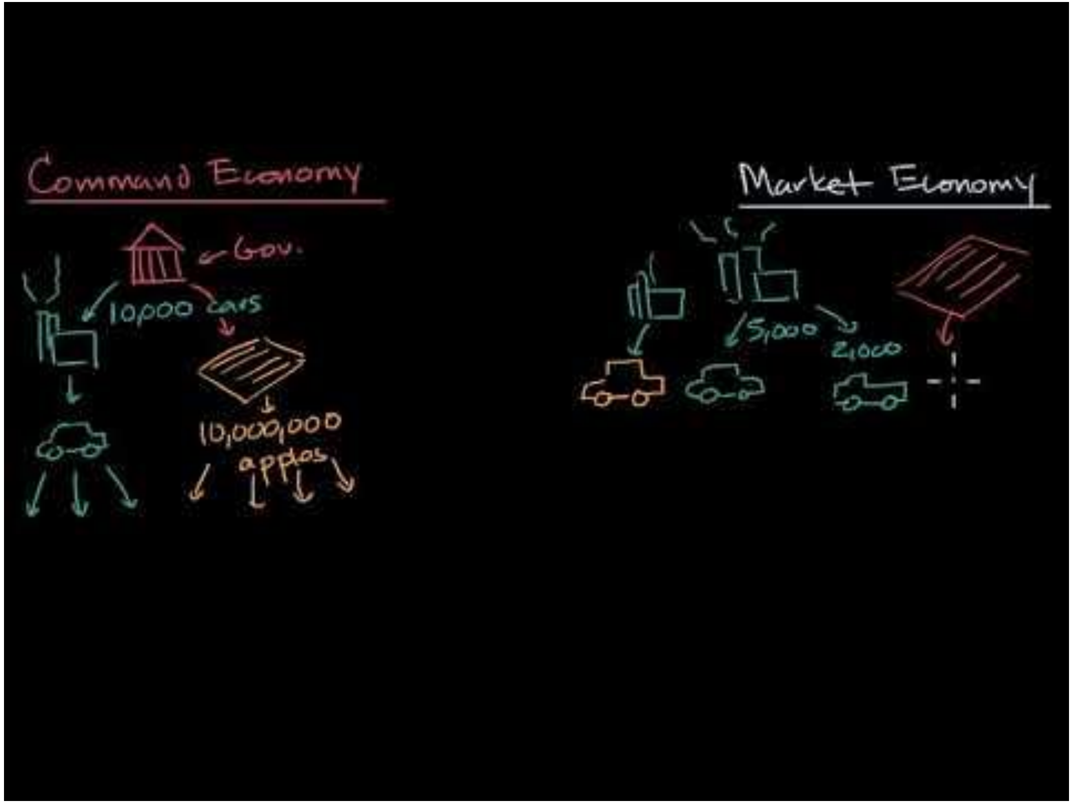
Free market economies, in theory, have no external influences, including governmental influences.

Free market economies are based on the idea of an Invisible Hand that will lead to the market becoming more efficient, rather than the central idea of command economies that the government must intervene and plan the economy. Essentially, free market economies believe that natural actions of the consumers and sellers will lead to public good.

There is much less competition in command economies due to the state having far more control. The state’s control inhibits competition as there are monopolies owned/significantly influenced by the state, meaning that less sellers can enter the market and challenge companies providing the same resource.

In free market economies, property is privately owned, while in command economies, the state owns property and decides the distribution of goods.

Videotime


Command Economy
Gov.
10,000 cars
10,000,000
apples
Market Economy
5,000
2,000