The student will analyze different economic systems.

a. Compare how traditional, command, and market economies answer the economic questions of (1) what to produce, (2) how to produce, and (3) for whom to produce.
Every society must deal with providing goods and services for its people. Each society must also develop an economic system that can decide how to use the limited resources of that society.

Three basic Questions must be answered:
1. What goods and services will be produced?
2. How will these goods and services be produced?
3. Who will use the goods and services that are produced?
Traditional Economy

In a traditional economy, most of the economic decisions that are made are based on custom and on the habit of how such decisions were made in the past. The word *tradition* means something that has been passed down in a culture from one generation to the next.
In a traditional economy, people produce mainly for their own families and neighborhoods. This is also sometimes called a subsistence economy because they do not produce large quantities of surplus goods to sell in a market.
In many areas where a traditional economy is found, people swap the goods they have produced with other people who have produced different items. The trade would be goods for other goods, with no money involved. This sort of system is known as **bartering**, and it was once very common in rural areas.

*Above: Alexander Calder’s painting “The Barter II,” part of Uganda’s modern art movement*
Command Economy

A command economy is a centralized economy or one in which government planning groups make most of the basic economic decisions for the workers. This central planning group would decide which goods and services should be produced, as well as prices for the goods and wages paid to the workers. No individual could decide to start a new business on his or her own.
The government would decide what to produce and who would own the places where the goods were produced. The government would also decide what jobs the workers would do and how and where the goods produced would be sold.
Market Economy
The third basic type of economic system is a market economy, one in which a society’s economic decisions are made by individuals who decide what to produce and what to buy. Other names for a market economy are capitalism, free enterprise, or laissez-faire, which is a French phrase that means “to allow them to do as they please.”
In this type of economy, people would take an economic risk as they invest in a new business. If the new businesses are successful, the people who organized and funded it would be successful and make a profit which is the money gained after all expenses have been subtracted.
SS7E1
The student will analyze different economic systems.
b. Explain how most countries have a mixed economy located on a continuum between pure market and pure command.
In reality, nearly all modern economies in the world today have characteristics of all three types of economic systems, and the countries of Africa are no exception. That is why they are called mixed economies.
A mixed economy is located on a continuum between a pure market and a pure command economy. This means that most economies contain economic freedom for privately-owned businesses with some intervention for environmentalism and social welfare.
SS7E1
The student will analyze different economic systems.
c. Compare and contrast the economic systems in South Africa and Nigeria.
<table>
<thead>
<tr>
<th>Area of Comparison</th>
<th>South Africa</th>
<th>Nigeria</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Type of Economy</strong></td>
<td>A technologically advanced market economy with some government control; one of the strongest economies in the region</td>
<td>Poorly organized economy after a long period of military dictatorship and corruption; now trying to reorganize with more private enterprise allowed; want to be able to take advantage of strong world oil market</td>
</tr>
<tr>
<td><strong>Goods Produced</strong></td>
<td>mining (platinum, diamonds, gold), auto assembly, machinery, textiles, iron, and steel chemicals, fertilizer</td>
<td>oil and petrochemicals are the primary market goods; Nigeria once exported food and other agricultural products, but now must import them</td>
</tr>
<tr>
<td><strong>Leading Exports</strong></td>
<td>gold, diamonds, platinum, other minerals, and equipment</td>
<td>oil and petrochemical products</td>
</tr>
<tr>
<td><strong>GDP per Capita</strong></td>
<td>$9,800</td>
<td>$2,000</td>
</tr>
<tr>
<td><strong>Labor Force</strong></td>
<td>Agriculture - 9% Industry - 26% Services - 65%</td>
<td>Agriculture - 17% Industry - 52% Services -30%</td>
</tr>
<tr>
<td><strong>Unemployment Rate</strong></td>
<td>24%</td>
<td>4.9%</td>
</tr>
</tbody>
</table>
SS7E2
The student will explain how voluntary trade benefits buyers and sellers in Africa.

a. Explain how specialization encourages trade between countries. Compare and contrast different types of trade barriers, such as tariffs, quotas and embargos.
Voluntary Trade
Voluntary trade is the key to a healthy market economy. Voluntary trade goes on when both parties in the transaction see that they will be able to gain something from the exchange. Ideally, this sort of trade is able to go on without government restriction or regulation either between individuals or between countries.
Mixed Economy

In reality, nearly all modern economies in this world today have characteristics of all three types of economic systems, and the countries in Africa are no exceptions. That is why they’re called mixed economies.

The above cartoon is an example of “Tigger Economics.”
A mixed economy is located between a pure market and a pure command economy. This means that most economies contain economic freedom for privately-owned businesses with some intervention for environmentalism and social welfare.
Today no countries in the world have economic systems that are all traditional, all command, or all market systems. Nearly all countries in Africa today would best be described as mixed economies, as they have the characteristics of free market and free enterprise, as well as some government planning and control.
As Africans join the world economic market, they are finding that there is a place in the economic world for many different approaches to what they produce, how to produce it and for whom.
Voluntary trade also encourages people and industrial planners to specialize in making those things that the market demands. This encourages specialization and usually means production that is more efficient (producing goods without waste), and more profitable (make more money).
While many countries try to protect their own industries by putting taxes on imported goods, others have worked to end **trade barriers**. In Africa, examples of such programs would be the regional trade associations that have developed in recent years. These organizations are working hard to make trade among the nations in their region more open and mutually supportive.
Specialization
Not every country can produce all of the goods and services it needs. Because of this, countries specialize in producing those goods and services most efficiently. They look for others who may need their goods and services so they can sell their products. The money earned allows the purchase of goods and services that the first country is unable to produce.
In international trade, no country can be completely **self-sufficient** (produce all the goods and services it needs). **Specialization** in those products a country makes best and that are in demand on the world market creates a way to earn money to buy items that cannot be made locally.
Most of the countries in Africa today are trying to find the products they can produce. Some countries are working to develop markets for products they are suited to produce. **South Africa** has rich deposits of gold, diamonds, and platinum. These are goods needed by other countries. South Africa has specialized in the development of this mineral wealth and has a thriving precious metals industry.
Nigeria has rich oil deposits. The United States gets almost 15% of its imported oil from Nigeria. Unfortunately, the emphasis on oil production has left other parts of Nigeria’s economy disorganized. Nigeria now has to import food to feed its large and growing population.
There are many possibilities for **profitable specialization** among African countries. For example, Uganda has an excellent history of producing high quality cotton. Neighboring Kenya is working to build a good system of textile manufacturing plants. If the two countries could do more planning, Uganda’s specialization in producing cotton could supply Kenya’s specialization in the manufacturing of cotton cloth.
Trade Barriers

Trade barriers are anything that slows down or prevents one country from exchanging goods. Not all trade barriers are natural barriers like deserts or mountains. Other types of trade barriers are created due to political problems between countries. Trade is stopped until political issues are settled with one another.
A tariff is a tax placed on goods when they are imported or brought into one country from another country. The purpose of the tariff is to make the imported item more expensive than a similar item made locally. This sort of tariff is called a protective tariff because it protects local manufacturers from competition coming from cheaper goods made in other countries.
If a country in Africa wanted to be sure that only locally grown grain was purchased, the government might place a tariff (tax) on grain imported from other countries. The tariff would make the imported goods more expensive than the locally produced goods. Therefore, sales of imported grain would go down, and sales of locally grown grain would go up.
A quota is a different way of limiting the amount of foreign goods that can come into a country. A quota sets a specific amount or number of a particular product that can be imported or acquired in a given period. By limiting imports, more people will buy more products made locally. A quota can also be a limit placed on how much of a particular product can be produced.
Nigeria is a member of the Organization of Petroleum Exporting Countries (OPEC). OPEC places quotas on how much oil each member nation can produce for the world market in order to keep prices at levels they want. The quota is designed to regulate the supply and price of oil. The goals is for OPEC to make as much profit as possible.
A third type of trade barrier is called an **embargo**. An embargo is when one country announces that it will no longer trade with another country. The goal is to isolate the country and cause problems with that country’s economy. Embargoes usually come about when two countries are having political problems.

The above map shows the country of South Africa highlighted in green. There were once embargoes against that country because of apartheid.
One example of an embargo involves South Africa. This country once practiced an official policy of apartheid which is the legal separation of races. Many countries in the United Nations thought this was wrong. They decided to stop selling weapons to South Africa. The U.S. had an embargo in place against South Africa for 35 years. It was lifted in 1998 after the practice of apartheid was banned.

Above is an image of former South African presidents F.W. de Klerk and Nelson Mandela who worked to end apartheid.
More products and money were kept from South Africa. In 1990, President F.W. de Klerk announced Nelson Mandela’s release from prison and began the slow process of dismantling the apartheid system. In 1992 a whites-only referendum approved the reform process. On April 27, 1994 the first democratic elections were held in South Africa with people of all races being able to vote. The nations of the world began trading with South Africa again.
SS7E2
The student will explain how voluntary trade benefits buyers and sellers in Africa.

b. Explain why international trade requires a system for exchanging currencies between nations.
Exchanging Currencies in International Trade

In order for countries to trade with each other, a system of exchanging currencies, or money, is necessary. Most countries have their own individual types of money. Currency from countries with stronger economies is usually easier to exchange because it has a more dependable value. Many of the currencies of African nations are harder to exchange because there has been so much political unrest and economic problems.

Left to right: Currency from Central African Republic, South Africa, Nigeria
Parts of Africa have already begun to use a currency that can be exchanged between nations. This currency is called the CFA franc. This currency was created after World War II when economies around the world were unstable. The value of the currency was tied to the French franc, because France has been in power in parts of Africa.
Today there are two versions of the CFA franc. One is called the *West African CFA franc* and the other is the *Central African CFA franc*. They now have their value linked to the Euro, which is used in the European Union.