

# FREE TUTORIAL ON ECONOMICS

## TOPIC: ECONOMIC SYSTEM

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# ECONOMIC SYSTEM

## TUTORIAL ON ECONOMICS

### ECONOMIC SYSTEMS

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Want to score high in your JAMB or WAEC? This tutorial will help you achieve that! It'll focus on Economic Systems.

At the end of the tutorial, you should be able to compare the various economic systems; apply the knowledge of economic systems to contemporary issues in Nigeria; and proffer solutions to economic problems in different economic systems.

Let's get on with it.

## **What is an Economic System?**

An economic system refers to the structure and organization of an economy, including how goods and services are produced, distributed, and consumed within a society. It encompasses the institutions, policies, and mechanisms that shape economic activities.

## **Types of Economic Systems**

Different economic systems exist, and they can be broadly categorized into four main types: traditional, command (planned or centrally planned), market (free enterprise), and mixed.

### **Traditional Economic System:**

- In a traditional economic system, economic decisions are based on customs, traditions, and historical practices.
- The production methods are often passed down from generation to generation, and economic activities are centered around community needs and traditions.
- This type of system is typically found in rural and less developed societies.

### **Command (Planned or Centrally Planned) Economic System:**

- In a command economy, also known as a planned or centrally planned economy, the government or a central authority makes most of the economic decisions.
- The government determines what goods and services are produced, how much is produced, and how resources are allocated.
- Examples of command economies include the former Soviet Union and Cuba.

### **Free Enterprise (Market) Economic System:**

- In a market economy, economic decisions are primarily driven by the forces of supply and demand in the marketplace.
- Private individuals and businesses make decisions about what to produce, how to produce, and for whom to produce based on market signals.
- Government intervention is typically minimal, and the allocation of resources is determined by the price mechanism.
- Examples of market economies include the United States, Canada, and most Western European countries.

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## Mixed Economic System

- A mixed economic system combines elements of both market and command economies.
- In a mixed economy, aspects of both private enterprise and government intervention coexist.
- This hybrid model attempts to leverage the advantages of both systems while mitigating their respective shortcomings.

## Characteristics of Economic Systems

### Free Enterprise (Market) Economy:

1. **Private Ownership:** Most of the resources, including land, labor, and capital, are owned privately by individuals or businesses.
2. **Market Forces:** Economic decisions are primarily determined by the forces of supply and demand in the marketplace.
3. **Limited Government Intervention:** The government's role is generally limited to enforcing contracts, protecting property rights, and ensuring fair competition.
4. **Profit Motive:** Businesses are motivated by the pursuit of profit. Profit serves as an incentive for innovation and efficiency.
5. **Competition:** Multiple businesses operate in a competitive environment, and competition is seen as a mechanism for improving products and services.

6. **Consumer Choice:** Consumers have a wide range of choices, and their preferences influence what goods and services are produced.
7. **Flexibility:** The market is flexible, and prices adjust based on changes in supply and demand.
8. **Entrepreneurship:** Entrepreneurial activity is encouraged, and individuals are free to start their own businesses.

#### **Centrally Planned (Command) Economy:**

1. **Government Ownership:** The government or a central authority owns and controls most of the resources and means of production.
2. **Central Planning:** Economic decisions, such as what to produce, how much to produce, and how resources are allocated, are made by the central planning authority.
3. **Limited Consumer Choice:** Consumers have limited choices, as production decisions are centrally planned.
4. **Lack of Profit Motive:** The profit motive is not the primary driver. Instead, economic decisions are guided by central planners' goals and objectives.
5. **Little Competition:** Competition is minimal or nonexistent, as the state often monopolizes key industries.
6. **Fixed Prices:** Prices are often set by the government, and there is little flexibility for market-driven price adjustments.

7. **Stability:** Central planning aims to achieve economic stability, but it can lead to inefficiencies and lack of responsiveness to changing conditions.
8. **Limited Entrepreneurship:** Entrepreneurial activities may be restricted or tightly controlled by the government.

#### **Mixed Economy:**

1. **Combination of Private and Public Ownership:** Both private and public sectors coexist, with private individuals and businesses owning some resources and the government owning or controlling others.
2. **Market Forces and Government Intervention:** Market forces play a significant role, but the government also intervenes to address market failures, ensure social welfare, and achieve specific economic goals.
3. **Consumer Choice and Limited Planning:** Consumers have choices, and some economic decisions are left to the market, but the government may also plan and regulate certain sectors.
4. **Profit Motive and Social Welfare:** The profit motive is present, but there is also a focus on social welfare through government programs and regulations.
5. **Competition and Regulation:** Competition is encouraged, but the government may regulate certain industries to prevent monopolies or ensure fair competition.

6. **Flexibility and Stability:** There is a balance between market flexibility and government stability, aiming to achieve economic efficiency and social equity.
7. **Entrepreneurship:** Entrepreneurial activities are generally allowed and supported, contributing to innovation and economic growth.

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## **Solutions to Economic Problems under the Different Systems**

The solutions to economic problems can vary depending on the economic system in place—whether it's a free enterprise (market) economy, a centrally planned (command) economy, or a mixed



economy. Here are general approaches to addressing economic problems in each system:

### **Free Enterprise (Market) Economy:**

#### **1. Market Mechanism:**

- **Solution:** Rely on the forces of supply and demand to allocate resources efficiently. Allow prices to adjust based on market conditions.

#### **2. Competition:**

- **Solution:** Encourage competition to improve efficiency, reduce prices, and promote innovation. Antitrust laws may be employed to prevent monopolies.

#### **3. Property Rights:**

- **Solution:** Protect and enforce private property rights, providing individuals and businesses with the security to invest and innovate.

#### **4. Limited Government Intervention:**

- **Solution:** Minimize government intervention to allow markets to operate freely. Focus on enforcing contracts, protecting property rights, and ensuring fair competition.

#### **5. Innovation and Entrepreneurship:**

- **Solution:** Encourage innovation and entrepreneurship through policies that support research and development, education, and a favorable business environment.

## Centrally Planned (Command) Economy:

### 1. Central Planning Adjustments:

- **Solution:** If there are economic imbalances or inefficiencies, the central planning authority can adjust production targets, resource allocations, and distribution plans.

### 2. Infrastructure Investment:

- **Solution:** Direct resources toward key infrastructure projects to support economic development and stability.

### 3. State Ownership:

- **Solution:** Evaluate and optimize state-owned enterprises to ensure efficiency and productivity.

### 4. Social Programs:

- **Solution:** Implement social programs to address basic needs, such as healthcare, education, and housing, to ensure social welfare.

### 5. Price Controls:

- **Solution:** Adjust and control prices to manage inflation or stabilize the economy. However, this approach can have limitations and unintended consequences.

## Mixed Economy:

### 1. Balancing Market and Government Intervention:

- **Solution:** Find a balance between market forces and government intervention. Use market mechanisms for

efficiency and government interventions for addressing market failures or promoting social objectives.

## 2. Social Welfare Programs:

- **Solution:** Implement and maintain social welfare programs to address income inequality, poverty, and other social issues.

## 3. Regulation and Competition:

- **Solution:** Regulate industries where competition is insufficient to prevent monopolies or unfair practices. Encourage competition in markets where it can lead to better outcomes.

## 4. Infrastructure Investment:

- **Solution:** Invest in infrastructure development to support economic growth and ensure a reliable foundation for businesses.

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## 5. Macroeconomic Policies:

- **Solution:** Utilize fiscal and monetary policies to manage economic cycles, stabilize prices, and address unemployment.

## 6. Public-Private Partnerships:

- **Solution:** Foster collaboration between the public and private sectors to address societal needs and promote economic development.

# Contemporary Issues in Economic Systems

## 1. Deregulation:

- **Issue:** Many countries have considered or implemented deregulation in various sectors, such as telecommunications, energy, and finance.
- **Reform:** Deregulation aims to reduce government intervention, promote competition, and enhance efficiency. In the banking sector, for example, it may involve reducing restrictions on financial institutions to foster competition.

## 2. Banking Sector Consolidation:

- **Issue:** Some countries have faced challenges related to the stability and efficiency of their banking systems.

- **Reform:** Banking sector consolidation involves merging or restructuring financial institutions to strengthen the sector, improve regulatory oversight, and enhance the stability of the financial system.

### 3. Cash Policy Reform:

- **Issue:** With the rise of digital transactions, some countries have reevaluated their cash policies to adapt to changing payment preferences and address issues like money laundering.
- **Reform:** Cash policy reforms may include measures to promote digital payments, enhance financial inclusion, and implement regulations to address illicit financial activities.

## Application of Economic Systems to Contemporary Issues in Nigeria

### 1. Oil Dependency:

- Nigeria has historically been heavily dependent on oil exports. A free enterprise approach might involve diversifying the economy to reduce reliance on oil, encouraging entrepreneurship in non-oil sectors, and promoting policies that attract foreign direct investment (FDI) in other industries.

## **2. Unemployment and Poverty:**

- In a mixed economy, there might be a focus on social welfare programs to alleviate poverty, coupled with market-oriented policies to stimulate job creation. Entrepreneurship and small business support could be encouraged to boost employment.

## **3. Corruption:**

- Combatting corruption requires a multifaceted approach. A mixed economy might involve regulatory measures to improve transparency, strengthen institutions, and promote ethical business practices. The market system could incentivize clean business through competition and legal enforcement.

## **4. Infrastructure Challenges:**

- Both public and private investments in infrastructure can be crucial. A mixed economy approach might involve public-private partnerships (PPPs) to fund and manage infrastructure projects, combining the efficiency of the market with government oversight.

## **5. Agricultural Productivity:**

- Given Nigeria's significant agricultural potential, a mixed economy approach could include government support for farmers, investment in modern agricultural practices, and the encouragement of private sector involvement in agribusiness.

## 6. Education and Human Capital Development:

- In a mixed economy, there might be a focus on public education to enhance human capital. Government interventions can include scholarships, vocational training programs, and partnerships with private entities to improve the quality of education.

## 7. Foreign Exchange Challenges:

- A mixed economy might involve carefully managed exchange rate policies, efforts to boost non-oil exports, and fiscal policies to ensure stability in the foreign exchange market.

## 8. Security Concerns:

- Economic stability is closely tied to security. A mixed economy approach may involve investments in security infrastructure, addressing root economic causes of conflicts, and implementing policies that promote inclusive economic development.

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## Practice Questions

***Now attempt these questions to ascertain your level of understanding of the ECONOMIC SYSTEMS.***

1: What is the primary focus of an economic system?

- A) Maximizing government control
- B) Allocating resources efficiently
- C) Ignoring market forces
- D) Eliminating private ownership

2: In a free enterprise economy, what primarily guides economic decisions?

- A) Government planning
- B) Market forces
- C) Central authority
- D) Traditional customs

3: Who typically makes production decisions in a centrally planned economy?

- A) Private businesses
- B) Market forces
- C) Central planning authority
- D) Consumers

4: What distinguishes a mixed economy from other types?

- A) Complete government control



B) Balance between market forces and government intervention

C) Absence of private ownership

D) Limited competition

5: In a free enterprise economy, what is a key solution to economic problems?

A) Increase government control

B) Encourage competition and innovation

C) Ignore market forces

D) Limit private ownership

6: How might a centrally planned economy address economic challenges?

A) Encourage private ownership

B) Rely on market forces

C) Adjust central planning decisions

D) Increase competition

7: What is a characteristic solution in a mixed economy?

A) Complete government ownership

B) Ignore social welfare programs

C) Balance between market forces and government intervention

D) Eliminate private businesses

8: How might Nigeria address challenges related to oil dependency in its economy?

A) Increase reliance on oil exports

B) Diversify the economy and promote non-oil sectors

C) Implement more central planning

D) Limit foreign investments

9: What is a potential benefit of banking sector consolidation in Nigeria?

A) Increased financial instability

B) Weakened regulatory oversight

C) Strengthened sector and improved stability

D) Reduced competition

10: Why might Nigeria implement cash policy reforms?

A) To promote cash transactions

B) To encourage money laundering

C) To discourage digital payments

D) To increase financial inclusion

## Answers and Explanations to Practice Questions

Hey, don't cheat! Make sure you have attempted the questions before checking the answers!

### 1: What is the primary focus of an economic system?

- **Answer:** B) Allocating resources efficiently
- **Explanation:** The primary focus of an economic system is to efficiently allocate resources to meet the needs and wants of society.

**2: In a free enterprise economy, what primarily guides economic decisions?**

- **Answer:** B) Market forces
- **Explanation:** In a free enterprise economy, economic decisions are primarily guided by the forces of supply and demand in the marketplace.

**3: Who typically makes production decisions in a centrally planned economy?**

- **Answer:** C) Central planning authority
- **Explanation:** In a centrally planned economy, production decisions are typically made by a central planning authority or government.

**4: What distinguishes a mixed economy from other types?**

- **Answer:** B) Balance between market forces and government intervention
- **Explanation:** A mixed economy is characterized by a balance between market forces and government intervention to address economic challenges.

**5: In a free enterprise economy, what is a key solution to economic problems?**

- **Answer:** B) Encourage competition and innovation

- **Explanation:** In a free enterprise economy, encouraging competition and innovation is a key solution to economic problems, promoting efficiency and growth.

## **6: How might a centrally planned economy address economic challenges?**

- **Answer:** C) Adjust central planning decisions
- **Explanation:** In a centrally planned economy, addressing economic challenges may involve adjusting central planning decisions to reallocate resources.

## **7: What is a characteristic solution in a mixed economy?**

- **Answer:** C) Balance between market forces and government intervention
- **Explanation:** In a mixed economy, solutions often involve finding a balance between market forces and government intervention to achieve economic goals.

## **8: How might Nigeria address challenges related to oil dependency in its economy?**

- **Answer:** B) Diversify the economy and promote non-oil sectors
- **Explanation:** To address challenges related to oil dependency, Nigeria may diversify its economy and promote sectors other than oil.

**9: What is a potential benefit of banking sector consolidation in Nigeria?**

- **Answer:** C) Strengthened sector and improved stability
- **Explanation:** Banking sector consolidation in Nigeria could lead to a strengthened sector and improved stability through better regulatory oversight.

**10: Why might Nigeria implement cash policy reforms?**

- **Answer:** D) To increase financial inclusion
- **Explanation:** Cash policy reforms in Nigeria might be implemented to increase financial inclusion by encouraging digital payments and reducing reliance on cash transactions.

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