Economic Systems and Economic Growth

***Types of Economic Systems: Revision***

**Economic Systems**

**As countries have developed over time, they devise different economic systems in organising their economic activities.**

***These economic systems include:***

* **What goods and services will the country produce?**
* **How will the goods and services be produced?**
* **Who is the benefit from the production of these goods and services?**

***Over time three systems have evolved:***

1. **Free Market Economy **

* All resources are owned by private sectors or by companies and used for their benefit only. The entrepreneurs are motivated by profit. The government plays a *limited role* in this type of economy. The free enterprise system allows any individual or group of people to start and operate a business with minimal government regulation or interference
* Free enterprise systems are run on the basis of consumer sovereignty, which means that consumers are the ones that drive demand

**2. Centrally Planned Economies (communism)** 

* All resources are publicly owned by the government on behalf of all citizens. The government controls all of the economy. There is no private sector
* The wealth and equality is divided among the people in which no man is richer and no man is poorer. No one is left behind

**Mixed Economies** [](http://www.redrockdecals.com/media/catalog/product/cache/1/thumbnail/600x600/9df78eab33525d08d6e5fb8d27136e95/f/l/flag_ireland.jpg)

* Mixed economies allow most of the major economic decisions to be made by the private sector, but the government intervenes to ensure the supply of essential goods to everybody. It is the most popular government system
* In a typical mixed economy, the government may run such things as the postal service, rail lines, libraries, and in some cases, the health care service. Even in industries which are not owned or run by the government, its influence is very noticeable in the form of taxes and regulations like wage controls. –Minimum wages.

*Each of the above economic systems operates in an economy where people or businesses buy goods and services. Economies can be small, like Navan, or big, like Ireland, The EU etc..*

*Unfortunately, no economy will have enough resources to satisfy all needs and wants, and so must allocate resources effectively*

**How does an economy decide production?**

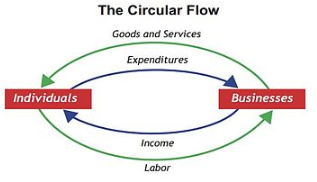
**What** to produce? What is a country good at producing- what is Ireland good/bad at producing?

**How** to produce? What skills are needed, what people do we need? What factors of production do we require?

**Who** to produce it for? Who is the good for? Should everyone get an equal share?

*From our classroom discussions, what examples can you think of?*

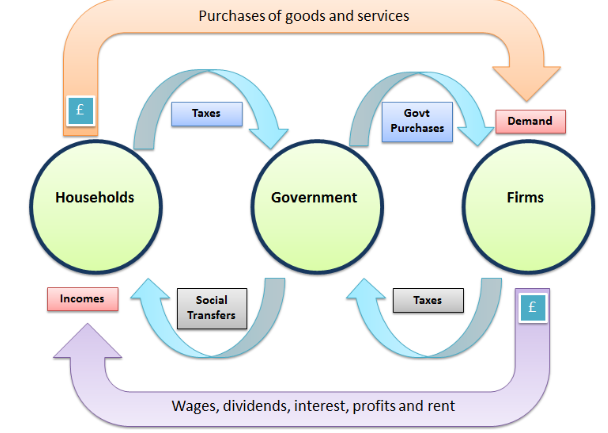
**How does an economy work?**

**Simple circular flow of income** 

Money flows in a circle between businesses and households. Households work for wages, and that income us used to buy goods and services from that and other businesses.

**Circular Flow of Income including the government**

The government takes money out of the circular flow in an economy (leakage), as well as putting money into an economy (injection)



**Economic Growth**

As the economy grows, it generally moves through four stages. These stages are:

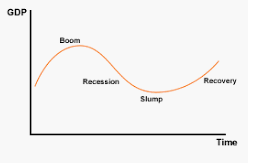
*(Remember- Economic Growth is the production of more goods and services than the previous year. We use GDP/GNP to measure).*

1. Boom

2. Recession

3. Slump

4. Recovery



**1. Boom**



This is above average economic growth, where more revenue is generated by the government due to increased employment and public spending. Prices will rise to generate more profits for businesses and peoples standards of living increase.

2. Recession



This is when economic growth falls below average. Unemployment rates rise, inflation decreases, consumer spending slows and businesses begin to close down. Less revenue is also generated from the government.

3. Slump



This is when the recession lasts a long period of time. Unemployment is high and inflation and spending is low over a prolonged period of time.

4. Recovery



The economy starts to rise again. Employment begins to rise as well as consumer spending in an economy. More tax income is generated for the government also.

Ireland’s Economy- The Celtic Tiger Years and Bailout

The Irish economy in the 1980’s through the 1990’s was steadily increasing, to become one of the world’s most rapidly growing economies. Unemployment went down from 20% in the late 1980’s to 4% in 2007.

One of the main reasons Irelands’ economy grew so much was due to job creation.  Having low tax rates, specifically in the corporate world, helped to attract many investors to Ireland.  Ireland also began to offer free higher education to EU citizens- creating more jobs for EU citizens.

However, in the early 2000’s, the nature of the boom began to change, a housing bubble developed and businesses and households borrowed large sums to pay for them. In 2007, the housing market hit its peak and the bubble burst, leading to the financial markets collapsing.

Banks cut lending and people could not afford to repay their loans. Unemployment rose significantly as people and businesses had huge debts they could not afford. This meant Ireland entered into a recession in 2008, and the Irish economy had to bail out the banks

***Task***

*On your I-Pads, research the effects of this recession on the Irish economy.*

***On the road to recovery***

To save the Irish economy from collapse, the economy received nearly 70 billion euro from the EU and the International Monetary Fund (IMF) in 2010, which would have to be paid back with interest over the next few years. The government had to factor this into their tough budgets for years to come.

Taxes such as USC, and Water Charges, job cuts, wage reductions, and increased taxes like VAT going up from 21% to 23% were introduced.

In September 2013, Ireland successfully exited the bailout program and began to show signs of recovery with an increase in employment, increase in exports, and more tax revenue generated in the economy.