

Lesson Notes on Economic Systems and Economic Analysis

Objective: Understand how different economic systems address fundamental economic questions and explore the distinctions between normative and positive economic analysis, including their impact on production decisions and consumer behavior.

This lesson aims to deepen students' understanding of how economic systems influence production decisions and the implications of economic analysis on understanding consumer behavior and policy making.

Economic Systems:

Economic Systems Overview:

- **Market Economy:** Decisions on production and consumption are determined by supply and demand, with minimal government intervention. Example: United States.
- **Mixed Economy:** Combines elements of market economies with government intervention and planning. Example: Canada, Sweden.
- **Traditional Economy:** Decisions are based on customs, traditions, and cultural beliefs. Production methods are often ancient. Example: Indigenous tribes.
- **Command Economy:** The government makes all decisions regarding what, how, and for whom to produce. Example: Cuba.

Specific Country Analysis:

- **Canada and Sweden (Mixed Economies):** Both countries have market-based economies with significant government intervention in areas like healthcare, education, and welfare, ensuring a redistribution of wealth and equitable production. The governments in these countries answer "for whom to produce" by aiming for a wider distribution of goods and services across society, impacting decisions about "what" and "how" to produce to meet societal needs.
- **Cuba (Command Economy):** The government decides what goods and services are produced, how they are produced, and who receives them. This system aims to meet the basic needs of all citizens, but may lack the efficiency and innovation seen in market-driven economies.

Impact on Production Decisions:

- Market forces in Canada and Sweden, though significant, are tempered by government policies aimed at social welfare, affecting the types of goods produced (more public goods and services). In Cuba, production decisions are centrally planned, prioritizing essentials like healthcare and education.
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Normative and Positive Economic Analysis

Definitions:

- **Normative Economics:** Involves value judgments about what the economy should be like or what particular policy actions should be recommended to achieve a desirable goal. It is subjective and based on opinions.
- **Positive Economics:** Deals with facts and cause-and-effect relationships.

Planned Obsolescence:

Planned obsolescence is a business strategy in which the obsolescence (the process of becoming obsolete—that is, unfashionable or no longer usable) of a product is deliberately planned and built into it from its conception. This is done by the manufacturer to ensure the continuous demand for the product by encouraging consumers to purchase newer, updated versions sooner than they would if the product were designed for a longer life

Normative Perspective on Planned Obsolescence:

- Normative thinking is about what should be. It's based on values and what people believe is right or wrong.
- From this viewpoint, planned obsolescence is seen as bad because it encourages people to buy things they don't really need, leading to more waste. This waste can harm our planet because old products end up in landfills, and making new products uses up more resources and energy.

Positive Analysis of Planned Obsolescence:

- Positive analysis is about what is. It looks at actual effects and facts, not what should be.
- Looking at planned obsolescence from this angle, we would study how it actually changes the way people buy things and how often they replace them. We might find that it makes companies come up with new inventions faster because they know people will be looking to buy the latest version of their products.

So, in easy words:

- Thinking about planned obsolescence in terms of right and wrong (normative) highlights concerns about waste and environmental damage.
- But if we just look at the facts and outcomes (positive), we see it can lead to faster updates and innovations in products, as companies strive to bring out new things to make consumers keep buying.

What role does marketing play in production decisions? What impact can marketing/advertising have on people's wants and what they may perceive to be their needs?

- Marketing's Role: Marketing helps companies understand what people want or can be made to want. This information can guide what products are made (production decisions). For example, if marketing research shows that people are starting to prefer

eco-friendly products, a company might decide to produce more of those.

- Impact of Marketing/Advertising: Marketing and advertising can shape what people think they need or want. A good ad can make something seem essential, even if it's not something you needed before seeing the ad. It can change people's perceptions by highlighting certain features or creating a brand image that people want to be associated with

Normative Perspective (What Should Be):

- Ethics: Marketing should be ethical and not trick people into buying things they don't need. It should help people and society, not just make profits.
- Needs vs. Wants: Marketing shouldn't make people think they need something when it's actually just a want. It should be honest about what products do.

Positive Perspective (What Is):

- Understanding Demand: Marketing helps companies know what people want to buy. It shows consumer trends without judging if it's good or bad.
- Market Trends: Marketing shapes what people want. It looks at how ads influence people's choices and tracks changes in what people buy.

In short, from a normative view, marketing should be about ethics and real needs. From a positive view, marketing is about understanding and responding to what people want, without saying if it's right or wrong.