

# The Changing Economies of Developing Nations

## Stage 1 – Traditional Economy

A traditional economy is a system that relies on customs, history, and time-honored beliefs. Tradition guides economic decisions such as production and distribution. Traditional economies depend on agriculture, fishing, hunting, gathering, or some combination of the above. They use barter instead of money.

## Stage 2 – Market Economy

A market economy is a system where the laws of supply and demand direct the production of goods and services. Supply includes natural resources, capital, and labor. Demand includes purchases by consumers, businesses, and the government.

Businesses sell their wares at the highest price consumers will pay. At the same time, shoppers look for the lowest prices for the goods and services they want. Workers bid their services at the highest possible wages that their skills allow. Employers seek to get the best employees at the lowest possible price.

## Stage 3 – Command Economy

A command economy is where a central government makes all economic decisions. Either the government or a collective owns the land and the means of production. It doesn't rely on the laws of supply and demand that operate in a market economy. A command economy also ignores the customs that guide a traditional economy. In recent years, many centrally-planned economies began adding aspects of the market economy. The resultant mixed economy better achieves their goals.

## Stage 4 – Market Economy

A market economy is a system where the laws of supply and demand direct the production of goods and services. Supply includes natural resources, capital, and labor. Demand includes purchases by consumers, businesses, and the government.

Businesses sell their wares at the highest price consumers will pay. At the same time, shoppers look for the lowest prices for the goods and services they want. Workers bid their services at the highest possible wages that their skills allow. Employers seek to get the best employees at the lowest possible price.

Capitalism requires a market economy to set prices and distribute goods and services. Socialism and communism need a command economy to create a central plan that guides economic decisions. Market economies evolve from traditional economies.

Most societies in the modern world have elements of all three types of economies. That makes them mixed economies.