

GRADE 10 | 2024

Economics: Economic Systems and the Circular Flow

Economics

CAPS ALIGNED

MatricHub.co.za | South Africa's Matric Resource Hub

1. The Basic Economic Problem

Scarcity: unlimited wants vs limited resources. Every economy must answer three basic questions: WHAT to produce? HOW to produce? FOR WHOM to produce?

2. Economic Systems

Market Economy (Capitalism)

- Private ownership of resources
- Free market determines prices
- Profit motive drives production
- Limited government intervention
- Example: USA

Command Economy (Socialism/Communism)

- Government owns and controls resources
- Government sets prices and plans production
- Aims for equality, but can lead to inefficiency
- Example: North Korea, former USSR

Mixed Economy

Combination of market and command. Government intervenes to correct market failures while allowing private enterprise. South Africa is a mixed economy.

3. The Circular Flow Model

The circular flow model shows how money and goods flow between households and firms.

- Households provide factors of production (labour, capital, land) to firms
- Firms pay factor incomes (wages, rent, interest, profit) to households
- Households spend income on goods and services from firms
- Leakages: savings, taxes, imports (money leaves the flow)
- Injections: investment, government spending, exports (money enters the flow)

FORMULA: For equilibrium: Leakages = Injections

$$S + T + M = I + G + X$$