A-LEVEL ECONOMICS • EXERCISE SHEET

1.4 Resource allocation in different economic systems

Name: ______________ Class: __________ Date: ____________ **Total: 26 marks**

KEY WORDS mixed 混合经济 • market economy 市场经济 • incentive 激励 • price mechanism 价格机制 • planned 计划经济

Objective

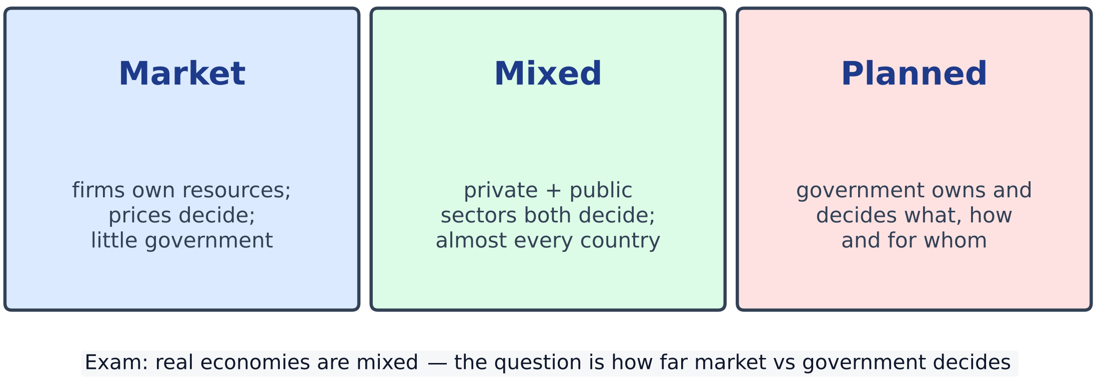
Build the skills to answer exam questions on **resource allocation in different economic systems 不同经济体制中的资源配置 — market, planned and mixed 市场、计划、混合** economies, and the **price mechanism 价格机制**.

You must be able to:

- describe market, planned and mixed economies
- explain the three functions of the price mechanism (signalling, incentive, rationing)
- analyse and evaluate the strengths and weaknesses of each system

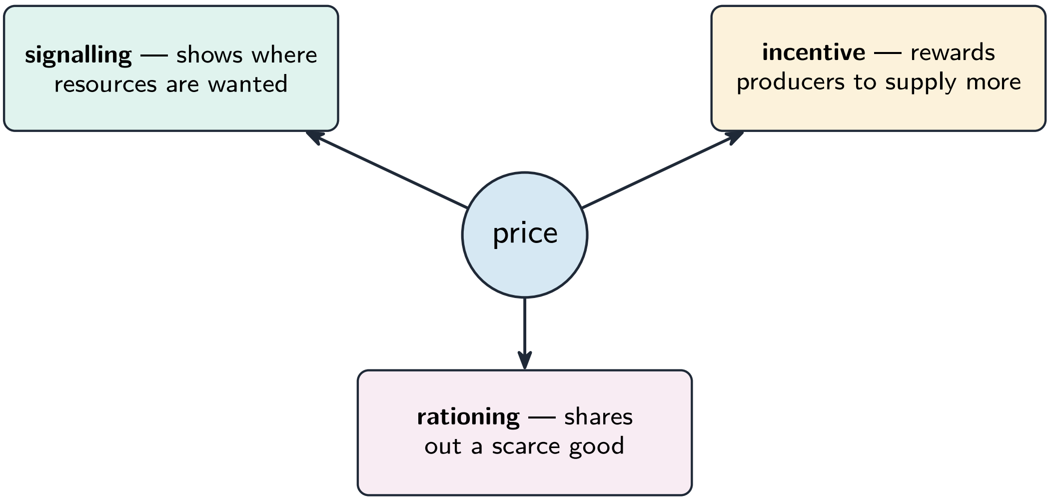
1 Worked examples

Systems and the price mechanism



$$\textit{Market economy} \leftrightarrow \textit{mixed economy} \leftrightarrow \textit{planned (command) economy}$$

- **Market economy 市场经济**: prices and private owners decide; **planned 计划经济**: the government decides; **mixed 混合经济**: both (almost every real country).
- **Price mechanism 价格机制** does three jobs: **signalling 信号** (shows where resources are wanted), **incentive 激励** (rewards producers to supply more), **rationing 配给** (shares out a scarce good).



The price mechanism: signalling, incentive and rationing

Answer shapes: AO1 + AO2 + AO3 (analysis) + AO4 (a supported judgement *in context*).

2 Practice

2.1 Define the term *market economy*. [2]

2.2 State the three functions of the price mechanism. [3]

2.3 State one strength and one weakness of a planned economy. [2]

3 Exam-style questions

3.1 In a market economy, a rising price acts as an **incentive** because it: [1]

- **A** signals where resources are wanted
- **B** rewards producers, so they supply more

- **C** shares out a scarce good
- **D** reduces consumer demand

3.2 Explain how the price mechanism allocates resources in a market economy. [6]

3.3 Discuss whether a mixed economy allocates resources better than a pure market economy. [12]

Solutions

Economics answers are marked by **level of response** against the assessment objectives: award **AO1** knowledge, **AO2** application, **AO3** analysis and **AO4** evaluation.

2.1 an economy in which resources are owned privately and prices, set by demand and supply, decide what is produced (2 for a clear definition; 1 for a partial idea).

2.2 signalling; incentive; rationing (1 + 1 + 1).

2.3 strength: smaller gap between rich and poor / key goods provided for all; weakness: weak incentive / shortages and surpluses / slow to change (1 + 1).

3.1 B. An incentive rewards producers so they supply more.

3.2 *[6]* AO1 1–2 + AO3 up to 4 — a rise in demand pushes the price up → the higher price *signals* that the good is wanted and gives producers an *incentive* to supply more → it also *rations* the scarce good to those willing to pay → resources move to where they are most valued.

3.3 *[12]* AO1/AO2/AO3 up to 8 + AO4 up to 4. **Mixed:** keeps market incentives and choice while the government provides public/merit goods and reduces inequality. **But:** the right balance is hard to find, and too much intervention can weaken incentives. **Pure market:** efficient and innovative, but ignores public goods, externalities and the poor. Judgement: a mixed economy usually allocates resources better because it corrects market failure, but its success depends on how well the government intervenes.