Exercise walk-through

Resource Allocation and Economic Systems ▪ 1.2

eXercise

You must be able to

- explain the three basic questions: what, how, and for whom to produce
- compare a **command economy 计划经济**, a **market economy 市场经济**, and a **mixed economy 混合经济**
- describe the role of **incentives 激励** and the **price mechanism 价格机制**

Method — The three questions

Every economy must answer **what** to produce, **how** to produce it, and **for whom**.

Method — Three systems

- **Command** — the government decides.
- **Market** — the **price mechanism** decides through supply and demand.
- **Mixed** — a blend of both (most real economies).

Method — Prices and incentives

Prices **signal** what is wanted and **ration** scarce goods; incentives guide producers and consumers toward efficient choices. Each system trades off efficiency, equity, and freedom.

Practice 2.1 ▪ 2 marks

Name the three types of economic system.

Solution 2.1

Worked steps

command, market, mixed **B1** **B1** *for two; for all three.*

Practice 2.2 ▪ 1 mark

State how a market economy allocates resources.

Solution 2.2

Worked steps

through the price mechanism (supply and demand) **B1**.

Practice 2.3 ▪ 1 mark

State one trade-off that an economic system must make.

Solution 2.3

Worked steps

any one of: efficiency vs equity, or freedom vs government control **B1**.

Exam-style 3.1 ▪ 1 mark

In a command economy, resources are allocated by

A market prices

B the government

C individual firms

D consumers alone

Solution 3.1

A market prices

B the government ✓

C individual firms

D consumers alone

Worked steps

B.

Exam-style 3.2 ▪ 1 mark

The price mechanism in a market economy

- **A** is set entirely by the state
- **B** signals and rations goods
- **C** ignores demand
- **D** fixes all wages

Solution 3.2

Method: Three systems

A is set entirely by the state

B signals and rations goods ✓

C ignores demand

D fixes all wages

Worked steps

B.

Exam-style 3.3 ▪ 1 mark

A country uses both markets and some government planning.

(a) Name this type of economy.

(b) State one advantage of using markets.

(c) State one reason for government involvement.

Solution 3.3

Method: Three systems

Worked steps

(a) a mixed economy **B1**. (b) prices give efficient signals and incentives **B1**. (c) to provide public goods, correct market failures, or improve equity (any one) **B1**.