# 1.2 Resource Allocation and Economic Systems

Name: ____________ Class: ________ Date: __________ **Total: 9 marks**

**KEY WORDS** price mechanism 价格机制 • incentives 激励 • mixed 混合经济 • economic system 经济体制 • market economy 市场经济

## Objective

Build the skills to answer exam questions on **resource allocation and economic systems**.

**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

## 1 Worked examples

Study these first. Each one shows the method for a question type used later.

### ■ The three questions

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

### ■ Three systems

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

### ■ 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.

## 2 Practice

**2.1** Name the three types of economic system. [2]

**2.2** State how a market economy allocates resources. [1]

**2.3** State one trade-off that an economic system must make. [1]

## 3 Exam-style questions

**3.1** In a command economy, resources are allocated by [1]

- **A** market prices
- **B** the government
- **C** individual firms
- **D** consumers alone

**3.2** The price mechanism in a market economy [1]

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

**3.3** A country uses both markets and some government planning.

(a) Name this type of economy. [1]

(b) State one advantage of using markets. [1]

(c) State one reason for government involvement. [1]

## Solutions

**2.1** command, market, mixed.

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

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

**3.1** **B**.

**3.2** **B**.

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