

2.1 The role of markets in allocating resources

Name: _____ Class: _____ Date: _____

Total: 18 marks

KEY WORDS resources 资源 • market 市场 • allocate 配置 • incentive 激励 • price mechanism 价格机制

Objective

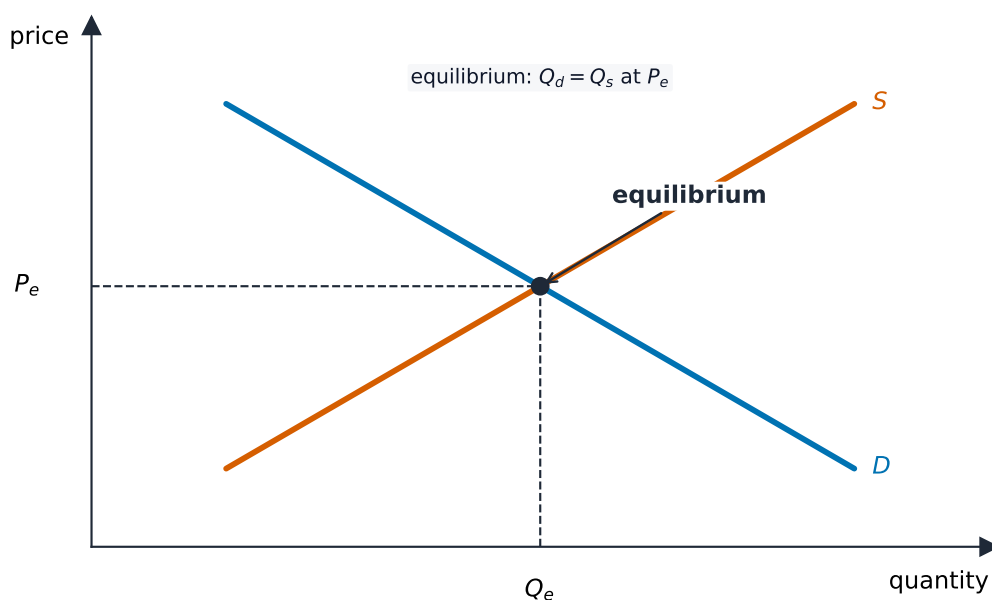
Build the skills to answer exam questions on **the role of markets in allocating resources** 市场配置资源的作用 — what a **market** 市场 is, **micro and macroeconomics** 微观与宏观, and the **price mechanism** 价格机制.

You must be able to:

- distinguish micro from macroeconomics
- explain what a market is
- explain the three functions of the price mechanism

1 Worked examples

■ How a market allocates resources

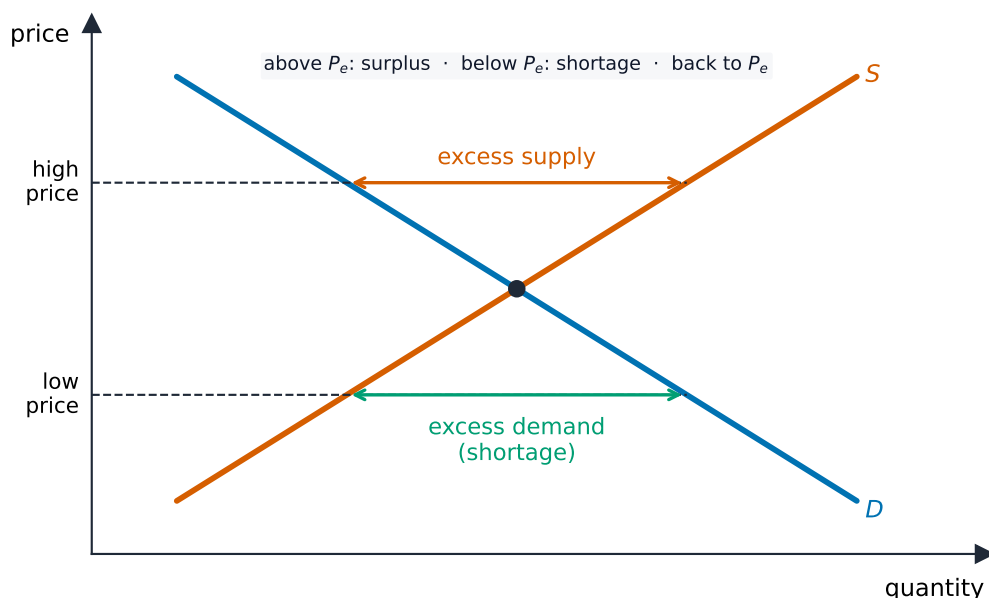


In a free market, prices — not planners — decide what is made

- **Microeconomics** 微观: single markets/products. **Macroeconomics** 宏观: the

whole economy.

- **Market** 市场: where buyers and sellers trade (a place, online, or by phone).
- **Price mechanism** 价格机制 does three jobs: **signalling** 信号 (shows what to make), **incentive** 激励 (rewards more output), **rationing** 配给 (shares out a scarce good).



Price does the rationing: a shortage pushes price up, a surplus pushes it down, until the market clears

Answer shapes: K + App + An + Ev (a justified judgement, for discuss questions).

2 Practice

2.1 Define the term *market*.

[2]

2.2 State the three functions of the price mechanism.

[3]

2.3 State the difference between microeconomics and macroeconomics.

[2]

3 Exam-style questions

3.1 A rising price acts as an **incentive** because it: [1]

- **A** signals what to produce
 - **B** gives firms a reason to produce more
 - **C** rations a scarce good
 - **D** reduces consumer demand
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3.2 Explain how the price mechanism allocates resources in a free market. [4]

3.3 Analyse how the price of a good responds to a sudden rise in demand for it. [6]

Solutions

IGCSE Economics answers are marked by **level of response**: award **K** knowledge, **App** application, **An** analysis and **Ev** a justified judgement.

2.1 any place or system where buyers and sellers meet to trade (2 for a clear definition; 1 for a partial idea).

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

2.3 microeconomics studies single parts of the economy (one market/firm); macroeconomics studies the whole economy (total jobs, prices, growth) (2 for a clear difference; 1 for a partial idea).

3.1 B. An incentive gives firms a reason to produce more.

3.2 [4] K 1 + An up to 3 — a price change *signals* what buyers want and gives firms an *incentive* to supply more of wanted goods, while *rationing* scarce goods to those willing to pay → resources move to where they are most valued, with no planner.

3.3 [6] K/App/An — a rise in demand means buyers want more at the current price → this creates a shortage (excess demand) → buyers compete and bid the price up → the higher price gives firms an incentive to supply more → the market moves to a new, higher equilibrium price and quantity.