IGCSE ECONOMICS • EXERCISE SHEET

2.10 Mixed economic system

Name: ____________ Class: ________ Date: __________ **Total: 18 marks**

KEY WORDS public sector 公共部门 • private sector 私营部门 • intervention 干预 • maximum price 最高价格 • minimum price 最低价格

Objective

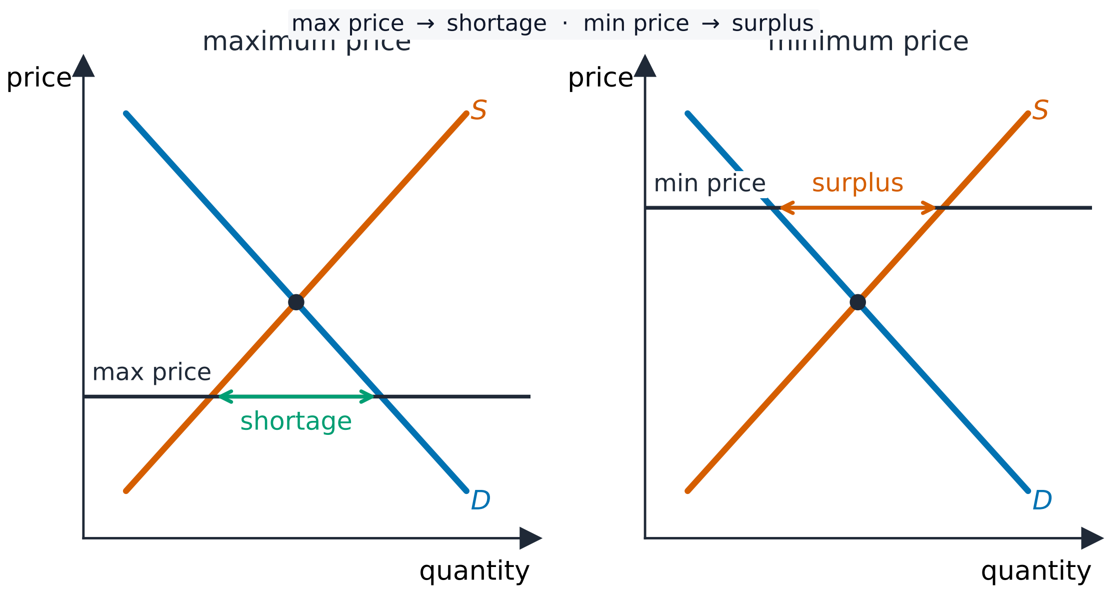
Build the skills to answer exam questions on **the mixed economic system 混合经济体制** — the **private and public sectors 私营与公共部门**, and government **intervention** 干预 (**maximum and minimum prices 最高与最低价格**, taxes, subsidies, regulation, direct provision).

You must be able to:

- explain what a mixed economy is
- describe the methods of government intervention
- analyse and evaluate government intervention to correct market failure

1 Worked examples

Government intervention



A mixed economy has both a private and a public sector

- **Mixed economy** 混合经济: a **private sector** 私营部门 (price mechanism) + a **public sector** 公共部门 (government).
- **Maximum price** 最高价格 (below equilibrium) → a shortage. **Minimum price** 最低价格 (above equilibrium) → a surplus.
- **Indirect tax** 间接税 (cuts demerit goods), **subsidy** 补贴 (raises merit goods), **regulation** 监管, **direct provision** 直接提供.

Merit good	**Demerit good**
better for you than you realise → under-consumed (e.g. education, healthcare)	worse for you than you realise → over-consumed (e.g. cigarettes, alcohol)

Exam: merit → under-consumed (subsidise); demerit → over-consumed (tax / regulate)

The public sector steps in for merit and demerit goods the market gets wrong

Answer shapes: an **Analyse** [**up to 6**] answer may use a price-control diagram; **Discuss** [8] adds a judgement (Ev).

2 Practice

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

2.2 State the effect of a **maximum price** set below the equilibrium price. [1]

2.3 Identify two methods of government intervention. [2]

3 Exam-style questions

3.1 A government sets a **minimum price** above the equilibrium. This will cause: [1]

- **A** a shortage
- **B** a surplus
- **C** the market to clear
- **D** demand to rise

3.2 Using a diagram, explain the effect of a maximum price set below the equilibrium price. [4]

3.3 Discuss whether a government should use an indirect tax to reduce consumption of a demerit good. [8]

Solutions

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

2.1 an economy with both a private sector (guided by the price mechanism) and a public sector (run by the government) (2 for a clear definition; 1 for a partial idea).

2.2 a shortage (excess demand), because quantity demanded exceeds quantity supplied (1).

2.3 any two of: maximum/minimum price; indirect tax; subsidy; regulation; direct provision (1 + 1).

3.1 B. A minimum price above equilibrium causes a surplus.

3.2 *[4]* K 1 + **diagram up to 2** (demand and supply, a maximum price line below P_e, excess demand) + An 1 — a maximum price held below equilibrium means quantity demanded exceeds quantity supplied → a shortage forms, because the price is not allowed to rise to clear the market.

3.3 *[8]* K/App/An up to 5 + Ev up to 3. **For a tax:** it raises the price → cuts consumption of the harmful good, raises government revenue, and makes consumers pay for the external cost. **Against:** if demand is inelastic (addiction), consumption falls little; the tax is regressive (hits the poor more); a black market may form. **Judgement (Ev):** a tax helps, but works best combined with education and regulation — its success depends on the price elasticity of demand for the good.