Solutions

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

Each answer shows the steps, then the **result**.

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