A-LEVEL ECONOMICS • HOLIDAY HOMEWORK 假期作业

1 The economic problem – Part 2

Name: ____________ Class: ________ Date: __________

Vocabulary 词汇

Write each word three times. 把每个单词抄写三遍。

English	中文	Write it 3 times (English)		
production possibility curve	生产可能性曲线			
unemployment	失业			
economic growth	经济增长			
allocate	配置			
market economy	市场经济			
planned economy	计划经济			
mixed economy	混合经济			
price mechanism	价格机制			
private good	私人物品			
public good	公共物品			
national defence	国防			
free-rider problem	搭便车问题			
merit good	优值品			
demerit good	劣值品			

Recall

In **Part 1** you met scarcity, the economic problem, opportunity cost, and the four factors of production. Part 2 adds a **diagram** of an economy's choices, how countries **organise** their economy, and the main **types of good**.

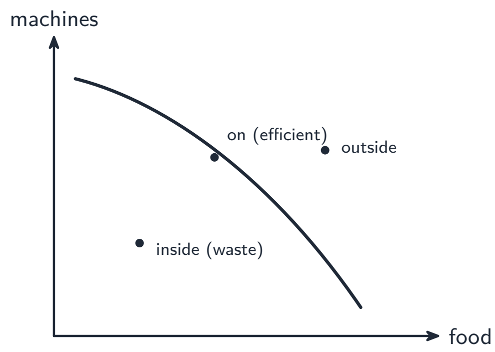
New ideas

1 The production possibility curve

A **production possibility curve** 生产可能性曲线 (PPC) shows the largest combinations of two goods an economy can make when all its resources are fully and well used.

- a point **on** the curve — all resources used, so it is **efficient**;
- a point **inside** the curve — resources are wasted (for example **unemployment** 失业);
- a point **outside** the curve — impossible today, because resources are scarce.

Moving along the curve shows **opportunity cost** — to make more of one good, you give up some of the other. The whole curve shifts **outward** with **economic growth** 经济增长 (more or better resources).



Micro-check. What does a point **inside** the PPC show? [1]

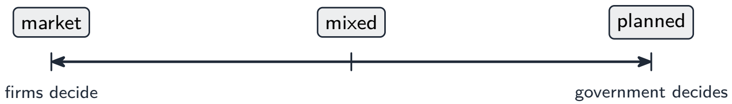
2 Economic systems

A country must decide how to **allocate** 配置 (share out) its scarce resources. There are three systems:

- a **market economy** 市场经济 — firms and people own resources, and prices decide what is made;

- a **planned economy** 计划经济 — the government owns resources and decides what is made;
- a **mixed economy** 混合经济 — a blend of the two (almost every real country).

In a market, the **price mechanism** 价格机制 does three jobs: it **signals** where goods are wanted, gives an **incentive** to supply, and **rations** scarce goods to those willing to pay.

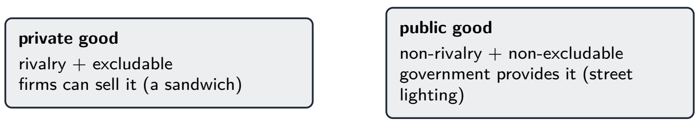


Micro-check. In which system does the **government** own most resources? [1]

3 Types of goods

- a **private good** 私人物品 is scarce: it has **rivalry** (if I use it, you cannot) and is **excludable** (you can be stopped from using it unless you pay);
- a **public good** 公共物品 (street lighting, **national defence** 国防) has **non-rivalry** and **non-excludability**, so private firms cannot make a profit from it (the **free-rider problem** 搭便车问题) — the government must provide it.

A **merit good** 优值品 (like education) is good for you, so people buy too **little**; a **demerit good** 劣值品 (like cigarettes) is harmful, so people buy too **much**.



Micro-check. Is education a **merit** or a **demerit** good? [1]

Watch out: on the PPC = efficient; inside = wasteful (e.g. unemployment); outside = impossible now. A *public* good has *both* non-rivalry and non-excludability (the free-rider problem). Merit goods are *under*-consumed; demerit goods *over*-consumed.

Practice

1.1 On a PPC, state what each point shows: (a) on the curve, (b) inside the curve, (c) outside the curve. [3]

1.2 State what causes the whole PPC to shift **outward**. [1]

1.3 State one difference between a **market economy** and a **planned economy**. [2]

1.4 State the two features of a **public good**. [2]

1.5 State whether each is a **merit** or a **demerit** good: (a) health care, (b) alcohol. [2]

1.6 Challenge. Explain why a private firm is unlikely to provide street lighting, so the government must instead. [2]