

# 1.2 Resource Allocation and Economic Systems

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Name: \_\_\_\_\_ Class: \_\_\_\_\_ Date: \_\_\_\_\_

Total: 9 marks

## Objective

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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

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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

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2.1 Name the three types of economic system.

[2]

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

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

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### 3 Exam-style questions

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

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

### 4 Go further

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- work through the **1.2 Resource Allocation and Economic Systems** lesson on the **Learn** page;

- read the **Basic Economic Concepts** section of the AP Microeconomics handout on the **Know** page.

## Solutions

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**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).