

# 1.2 Resource Allocation and Economic Systems

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

Total: 9 marks

**KEY WORDS** price mechanism 价格机制 • incentives 激励 • mixed 混合经济  
• economic system 经济体制 • market economy 市场经济

## Objective

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

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

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

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]

## 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).