

Exercise walk-through

2.10

Mixed economic system

IGCSE Economics

Micro and macro, and what a market is

microeconomics

single parts of the economy – one industry, one product, one household

macroeconomics

the economy as a whole – growth, inflation, unemployment, trade

a market

any place *or system* where buyers and sellers meet to trade

no building needed

it can be online, or over the phone – what makes it a market is the trading, not the location

**ceteris
paribus**

“other things equal” – change one thing at a time and hold the rest fixed

Every demand or supply diagram carries *ceteris paribus* silently. It is the reason a curve can shift at all.

The mixed economy, and how governments intervene

A **mixed economy** has a **private sector** guided by the price mechanism and a **public sector** run by the government. Most real economies are mixed; China's is a socialist market economy.

Method	What it does
maximum price	a ceiling – causes a shortage
minimum price	a floor – causes a surplus
indirect tax	raises price, cuts demerit demand
subsidy	cuts price, raises output of merit goods
regulation	rules and laws, like a smoking ban
direct provision	the state supplies it, like schools

The market system, weighed both ways

advantage prices guide resources to where they are wanted, *without anyone planning*

advantage consumers have wide choice, and firms compete to win them

advantage a strong incentive to work, invest and invent

drawback the strong – rich firms and people – do well; the weak may be left with nothing

drawback some goods are not supplied at all, and pollution is not counted

inefficient outcomes monopoly power, and missing information, both distort the price signal

The mixed economy exists because both columns are true. Every evaluation question wants at least one line from each.

Exercises 2.1-2.3

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]

Exercises 2.1-2.3

2.1 Define the term *mixed economy*.

[2]

2.1

- a **mixed economy** has both a **private sector** (price mechanism) and a **public sector** (government) (K)

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

[1]

2.2

- a maximum price below equilibrium
- a **shortage** (excess demand) (K)

2.3 Identify two methods of government intervention.

[2]

2.3

- any **two** of: **maximum/minimum price** / **indirect tax** / **subsidy** / **regulation** / **direct provision** (K, K)

Exercises 3.1-3.2

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]

Exercises 3.1·3.2

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

3.1 B

- a **minimum price** above equilibrium causes a **surplus** (K)
- A is a maximum price; C is the free-market outcome; D is not caused by the floor itself

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

3.2

- draw demand and supply with a maximum-price line **below** P_e (K)
- quantity demanded **exceeds** quantity supplied (An)
- a **shortage** forms, because the price is not allowed to rise to clear the market (An)

Exercise 3.3

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

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3.3

- **for a tax:** it raises the price → cuts consumption of the harmful good, raises revenue, and makes consumers pay for the external cost ($K + A_n$)
- **against:** if demand is inelastic, consumption falls little; the tax is **regressive**; a black market may form (A_n)
- **judgement (Ev):** a tax helps, but works best with education and regulation – success depends on **PED**