

2.10 Mixed economic system

Name: _____ Class: _____ Date: _____

Total: 18 marks

KEY WORDS public sector • private sector • intervention
 • maximum price • minimum price

Objective

Build the skills to answer exam questions on **the mixed economic system**

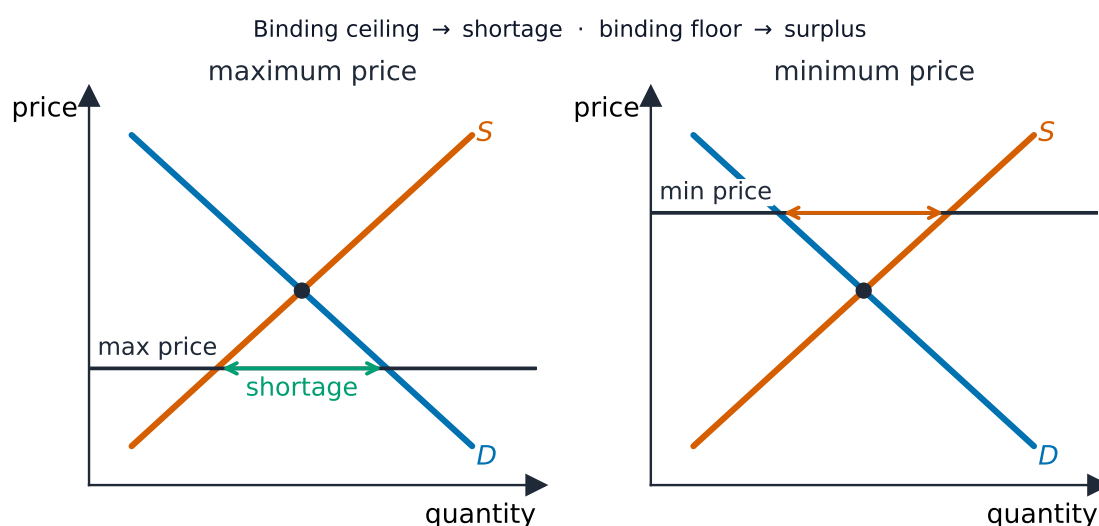
– the **private and public sectors**, and government **intervention**
 (maximum and minimum prices, taxes, subsidies, regulation, direct provision).

You must be able to:

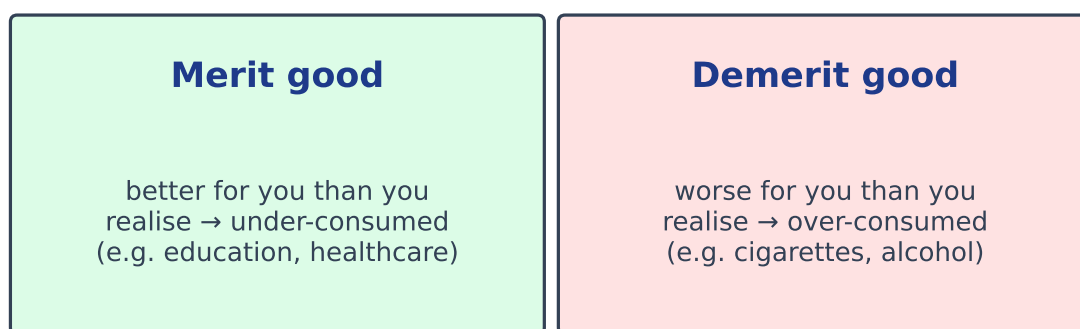
- explain what a mixed economy is
- describe the methods of government intervention
- analyse and evaluate government intervention to correct market failure

1 Key knowledge and worked examples

■ Government intervention



- **Mixed economy** : a **private sector** (price mechanism) + a **public sector** (government).
- **Maximum price** (below equilibrium) → a shortage. **Minimum price** (above equilibrium) → a surplus.
- **Indirect tax** (cuts demerit goods), **subsidy** (raises merit goods), **regulation**, **direct provision**.



Exam: merit → under-consumed (subsidise); demerit → over-consumed (tax / regulate)

The public sector steps in for merit and demerit goods the market gets wrong

Answer shapes: an **Analyse** [up to 6] answer may use a price-control diagram; **Discuss** [8] adds a judgement (Ev).

2 Practice

2.1 Define the term *mixed economy*. [2]

2.2 State the effect of a **maximum price** set below the equilibrium price. [1]

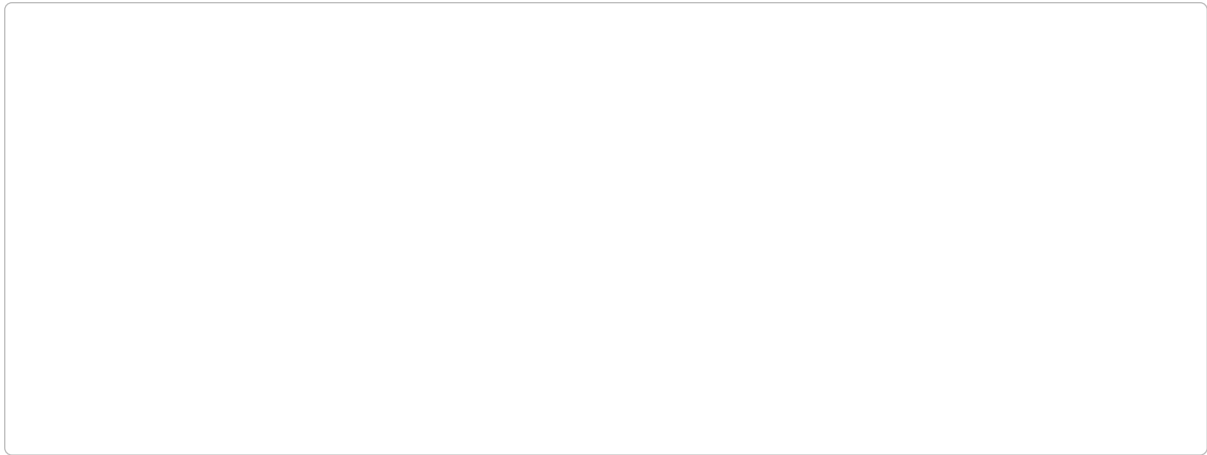
2.3 Identify two methods of government intervention. [2]

3 Exam-style questions

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]



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

Solutions

IGCSE Economics answers are marked by **level of response**: award **K** knowledge, **App** application, **An** analysis and **Ev** a justified judgement.

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

2.1

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

2.2

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

2.3

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

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

- 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)

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 + An)
- **against**: if demand is inelastic, consumption falls little; the tax is **regressive**; a black market may form (An)
- **judgement (Ev)**: a tax helps, but works best with education and regulation – success depends on **PED**