2.8 Market economic system

Name: _____ Class: _____ Date: _____ **Total: 18 marks**

KEY WORDS market economy • price mechanism • the market economic system • fail • advantages and disadvantages

Objective

Build the skills to answer exam questions on **the market economic system** – how the **price mechanism** allocates resources, and the **advantages and disadvantages** of the market system.

You must be able to:

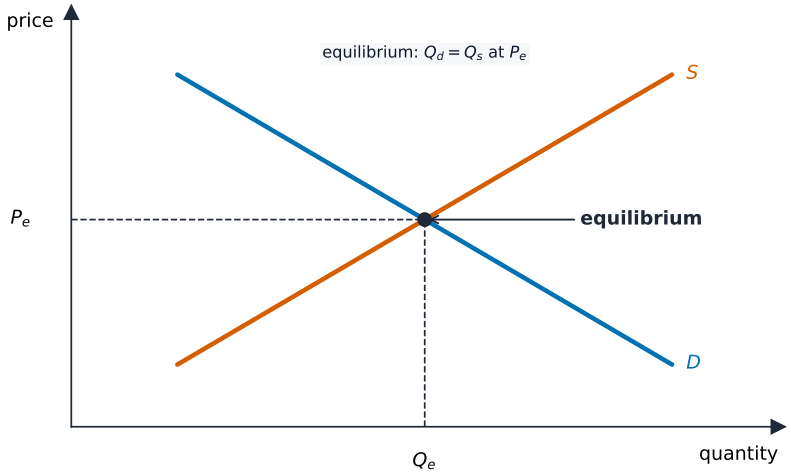
- explain how a market economy answers what, how and for whom to produce
- state the advantages and disadvantages of the market system
- analyse and evaluate the market system

1 Key knowledge and worked examples

The market system

In a market economy, prices – not planners – make the choices

- **Market economy** : the price mechanism makes all the choices (no government planning). The opposite is a **planned economy** .
- **Advantages:** prices guide resources without planning; firms compete (lower costs, new goods); wide consumer choice.
- **Disadvantages:** some useful goods are not made (no profit); the rich do well, the poor may get little; markets can **fail** .



How the market system works: the price mechanism clears the market without any planner

Answer shapes: K + App + An + Ev (a justified judgement, for discuss questions).

2 Practice

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

2.2 State two advantages of the market economic system. [2]

2.3 State one disadvantage of the market economic system. [1]

3 Exam-style questions

3.1 In a market economy, decisions about what to produce are made by: [1]

- **A** the government
- **B** the price mechanism (demand and supply)
- **C** a central planner
- **D** trade unions

3.2 Explain one disadvantage of relying only on the market system to allocate resources. [4]

3.3 Discuss whether a market economy is the best way to allocate a country's resources. [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 **market economy** lets the **price mechanism** (demand and supply) make all resource-allocation decisions, with no government planning (K)

2.2

- any **two** of: prices guide resources without planning / **competition** lowers costs and creates new goods / wide **consumer choice** (K, K)

2.3

- any **one** of: useful but unprofitable goods are not made / the **poor** may get little / markets can **fail** (K)

3.1 B

- in a market economy the **price mechanism** decides what to produce (K)
- A and C are a planned economy; D is not an allocator

3.2

- the market only makes goods that earn a **profit** (K)
- **public goods** (street lighting) and **merit goods** may be under-provided (An)
- the poor, who cannot pay, may go without essentials (An)

3.3

- **for**: prices allocate efficiently; competition drives lower costs and innovation; consumers have choice (K + An)
- **against**: it under-provides public and merit goods, ignores external costs, and can leave the poor with too little (An)
- **judgement (Ev)**: the market works well for most goods, but a **mixed** economy usually allocates resources better