

2.1 The role of markets in allocating resources

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

KEY WORDS resources • market • allocate • incentive
• price mechanism

Objective

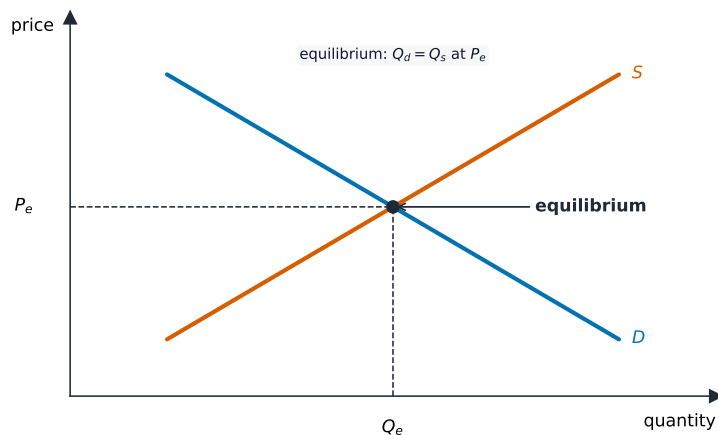
Build the skills to answer exam questions on **the role of markets in allocating resources** – what a **market** is, **micro and macroeconomics**, and the **price mechanism**.

You must be able to:

- distinguish micro from macroeconomics
- explain what a market is
- explain the three functions of the price mechanism

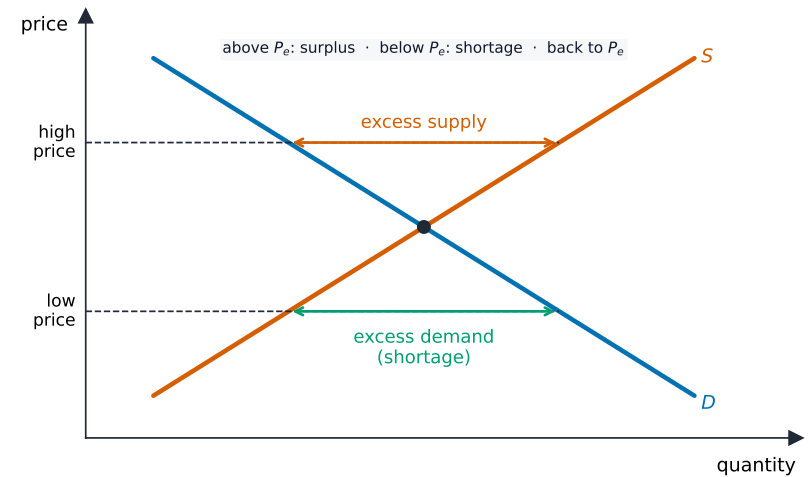
1 Key knowledge and worked examples

■ How a market allocates resources



In a free market, prices – not planners – decide what is made

- **Microeconomics** : single markets/products. **Macroeconomics** : the whole economy.
- **Market** : where buyers and sellers trade (a place, online, or by phone).
- **Price mechanism** does three jobs: **signalling** (shows what to make), **incentive** (rewards more output), **rationing** (shares out a scarce good).



Price does the rationing: a shortage pushes price up, a surplus pushes it down, until the market clears

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

2 Practice

2.1 Define the term *market*. [2]

2.2 State the three functions of the price mechanism. [3]

2.3 State the difference between microeconomics and macroeconomics. [2]

3 Exam-style questions

3.1 A rising price acts as an **incentive** because it: [1]

- ☐
- A signals what to produce

B gives firms a reason to produce more

C rations a scarce good

D reduces consumer demand

3.2 Explain how the price mechanism allocates resources in a free market. [4]

3.3 Analyse how the price of a good responds to a sudden rise in demand for it. [6]
