

2.8 Market economic system

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

KEY WORDS market economy
 • the market economic system • price mechanism
 • 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

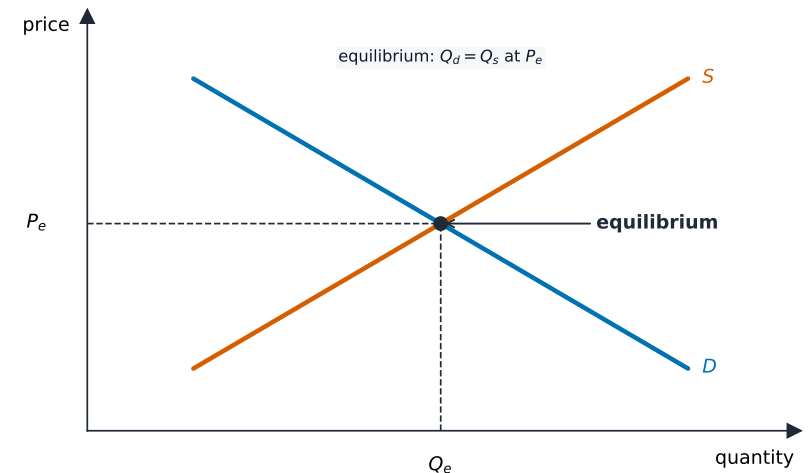
■ The market system



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]