Past-paper walk-through

The role of markets in allocating resources ▪ 2.1

eXercise

Questions in this set

- 0455/12 J25 Q4 ▪ 1 mark
- 0455/13 J25 Q4 ▪ 1 mark
- 0455/12 M25 Q8 ▪ 1 mark
- 0455/12 N24 Q2 ▪ 1 mark

Question 4

0455/12 J25 ▪ Q4 ▪ 1 mark

4 What are both macroeconomic decisions?

	decision 1	decision 2
A	a school recruits more teachers	a firm sets the prices for its products
B	a central bank reduces money supply	a government spends more on defence
C	a government increases tax rates	a farmer decides which crops to grow
D	a household cuts its energy use	a worker accepts an offer of overtime

Solution 4

Answer: **B**

Why

- Macroeconomic decisions affect the whole economy.
- A government setting interest rates or its budget is macroeconomic.
- One firm's prices, or one school's hiring, is microeconomic.

Question 4

0455/13 J25 ▪ Q4 ▪ 1 mark

4 What is the function of the price mechanism in a market economy?

A allocating resources and guiding choices

B allowing governments to provide price stability

C enabling markets to operate fairly

D preventing competitors from entering a market

Solution 4

Answer: **A**

Why

- The price mechanism signals, rations and gives incentives.
- Rising prices tell producers to supply more and consumers to buy less.
- That is how it allocates scarce resources between competing uses, with no planner needed.

Question 8

0455/12 M25 ▪ Q8 ▪ 1 mark

8 What is a characteristic of a market economic system?

A consumers decide whether production is labour-intensive or capital-intensive

B factors of production are government-owned

C high levels of government intervention

D land and capital are privately owned

Solution 8

Answer: **D**

Why

- In a market system, resources are privately owned and allocated by the price mechanism.
- Firms produce for profit and consumers vote with their money.
- There is no government planning, so any answer involving state direction is wrong.

Question 2

0455/12 N24 ▪ Q2 ▪ 1 mark

2 What is opportunity cost?

A the allocation of resources in an economy

B the cost to the individual when they consume a good

C the lack of goods and services available to satisfy unlimited wants

D the next best alternative forgone when making an economic decision

Solution 2

Answer: **D**

Why

- Opportunity cost is the value of the next best alternative given up when a choice is made.
- It is not the money paid, and not the shortage itself.
- Every choice has one, because choosing one option always means forgoing another.