IGCSE ECONOMICS • EXERCISE SHEET

2.1 The role of markets in allocating resources

Name: ____________ Class: ________ Date: __________ **Total: 15 marks**

Objective

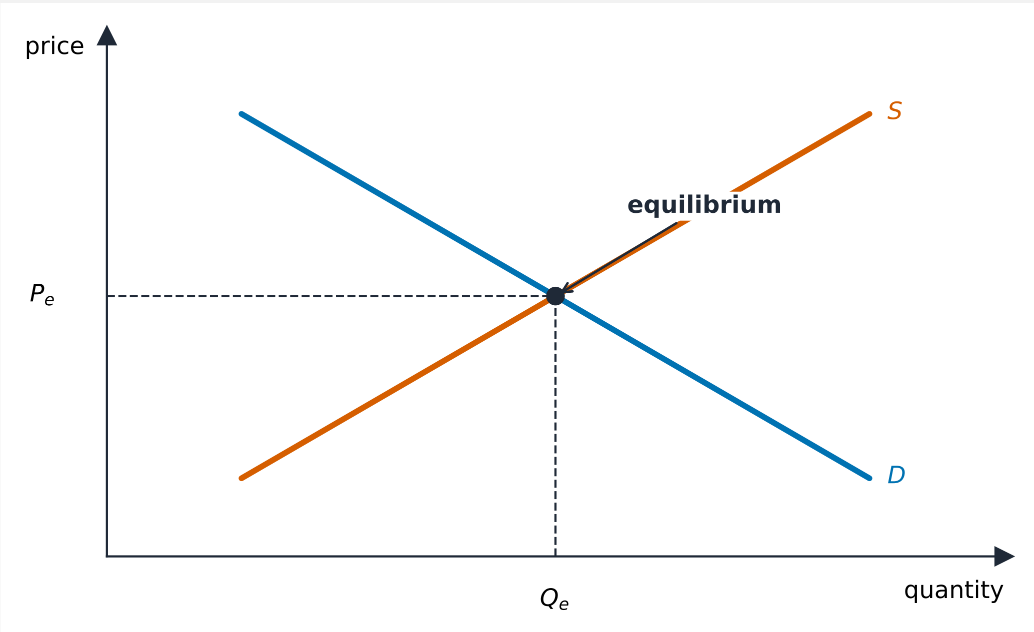
Build the skills to answer exam questions on **the role of markets in allocating resources** 市场配置资源的作用—what a **market** 市场 is, **micro and macroeconomics** 微观与宏观, and the **price mechanism** 价格机制.

You must be able to:

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

1 Worked examples

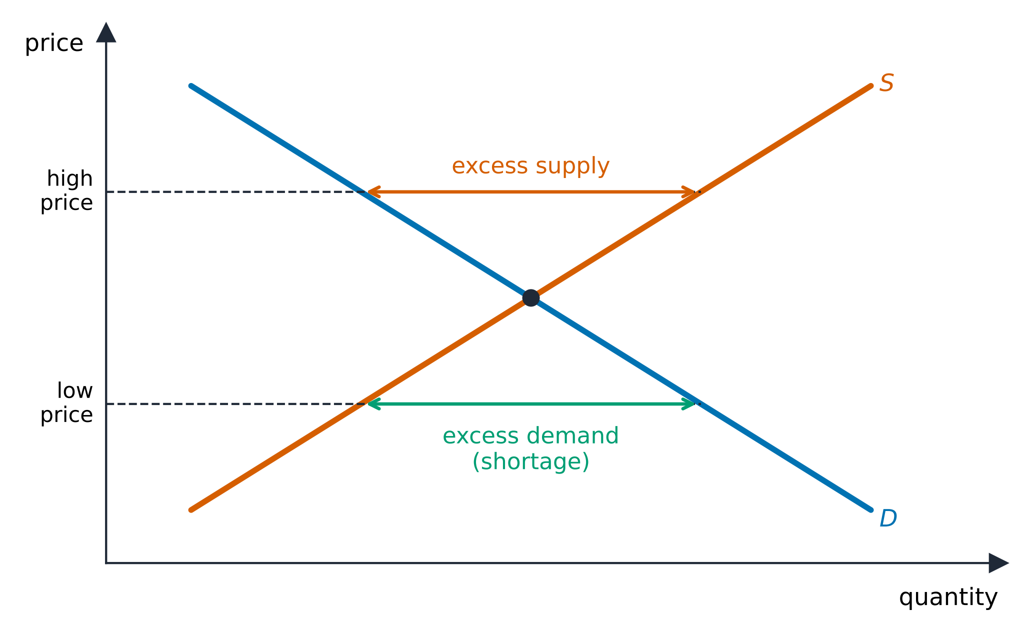
How a market allocates resources



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

- **Microeconomics** 微观: single markets/products. **Macroeconomics** 宏观: the whole economy.
- **Market** 市场: where buyers and sellers trade (a place, online, or by phone).

- **Price mechanism** 价格机制 does three jobs: **signalling** 信号 (shows what to make), **incentive** 激励 (rewards more output), **rationing** 配给 (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]

4 Go further

You are now ready for the real exam questions on this subtopic. Open the **2.1 The role of markets in allocating resources** past-paper sheet in the Library, or try these in **Practice mode**:

- 0455/12 J25 —Q4 (markets / price mechanism)
- 0455/13 J25 —Q4 (allocating resources)
- 0455/12 M25 —Q8 (functions of price)

Solutions

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

2.1 any place or system where buyers and sellers meet to trade (2 for a clear definition; 1 for a partial idea).

2.2 signalling; incentive; rationing (1 + 1 + 1).

2.3 microeconomics studies single parts of the economy (one market/firm); macroeconomics studies the whole economy (total jobs, prices, growth) (2 for a clear difference; 1 for a partial idea).

3.1 B. An incentive gives firms a reason to produce more.

3.2 *[4]* K 1 + An up to 3 —a price change *signals* what buyers want and gives firms an *incentive* to supply more of wanted goods, while *rationing* scarce goods to those willing to pay → resources move to where they are most valued, with no planner.

3.3 *[6]* K/App/An —a rise in demand means buyers want more at the current price → this creates a shortage (excess demand) → buyers compete and bid the price up → the higher price gives firms an incentive to supply more → the market moves to a new, higher equilibrium price and quantity.