IGCSE ECONOMICS • EXERCISE SHEET

2.8 Market economic system

Name: ____________ Class: ________ Date: __________ **Total: 18 marks**

KEY WORDS market economy 市场经济 • price mechanism 价格机制 • the market economic system 市场经济体制 • fail 失灵 • advantages and disadvantages 优缺点

Objective

Build the skills to answer exam questions on **the market economic system** 市场经济体制 — how the **price mechanism** 价格机制 allocates resources, and the **advantages and disadvantages** 优缺点 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

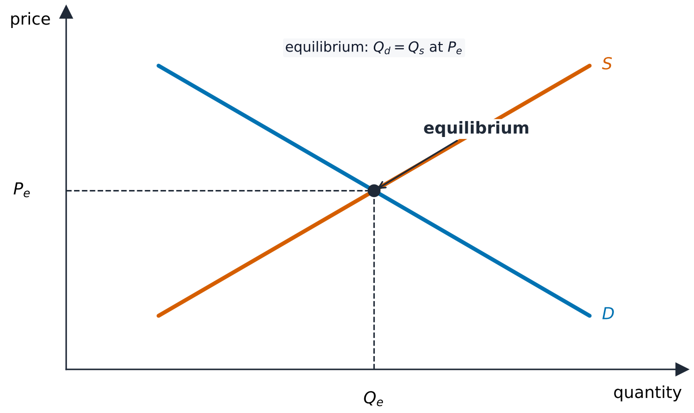
1 Worked examples

■ The market system

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

- **Market economy** 市场经济: the price mechanism makes all the choices (no government planning). The opposite is a **planned economy** 计划经济.
- **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** 失灵.



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.

2.1 an economy in which the price mechanism (demand and supply) makes all the resource-allocation decisions, with no government planning (2 for a clear definition; 1 for a partial idea).

2.2 any two of: prices guide resources without planning; competition lowers costs and creates new goods; wide consumer choice (1 + 1).

2.3 any one of: useful but unprofitable goods are not made; the poor may get little; markets can fail (1).

3.1 B. In a market economy the price mechanism decides what to produce.

3.2 *[4]* K 1 + An up to 3 — the market only makes goods that earn a profit → so public goods (like street lighting) and merit goods may be under-provided → and the poor, who cannot pay, may go without essentials → this is an inefficient or unfair outcome.

3.3 *[8]* K/App/An up to 5 + Ev up to 3. **For:** prices allocate resources efficiently without planning, competition drives lower costs and innovation, and consumers have choice. **Against:** it under-provides public and merit goods, ignores external costs (pollution), and can leave the poor with too little. **Judgement (Ev):** the market works well for most goods, but it fails for some, so a *mixed* economy — market plus government correction — usually allocates resources better; it depends on the type of good.