

2.1 The role of markets in allocating resources

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

KEY WORDS resources 资源 • market 市场 • allocate 配置 • incentive 激励
• price mechanism 价格机制

Objective

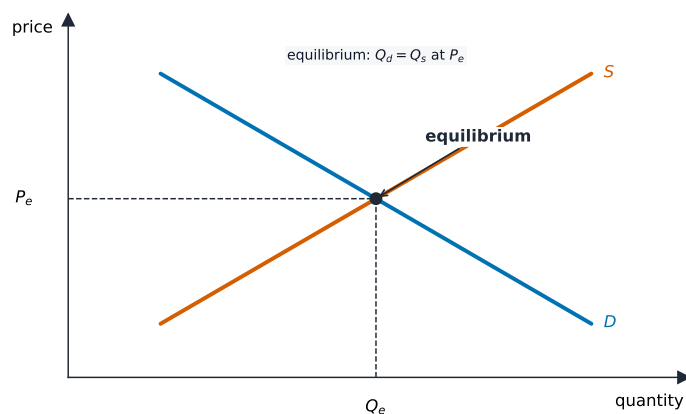
Build the skills to answer exam questions on **the role of markets in allocating resources** 市场配置资源的作用 — what a **market** 市场 is, **micro and macroeconomics** 微观与宏观, and the **price mechanism** 价格机制.

You must be able to:

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

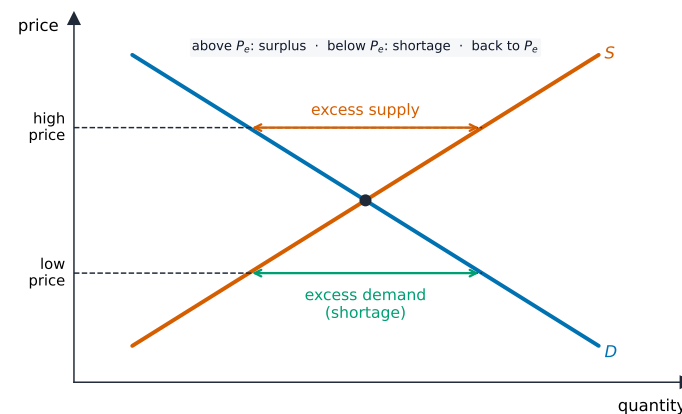
1 Worked examples

■ 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 | B |
| C | D |
- 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]
