Solutions

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

Each answer shows the steps, then the **result**.

2.1

- a **market economy** lets the **price mechanism** (demand and supply) make all resource-allocation decisions, with no government planning (K)

2.2

- any **two** of: prices guide resources without planning / **competition** lowers costs and creates new goods / wide **consumer choice** (K, K)

2.3

- any **one** of: useful but unprofitable goods are not made / the **poor** may get little / markets can **fail** (K)

3.1 B

- in a market economy the **price mechanism** decides what to produce (K)
- A and C are a planned economy; D is not an allocator

3.2

- the market only makes goods that earn a **profit** (K)
- **public goods** (street lighting) and **merit goods** may be under-provided (An)
- the poor, who cannot pay, may go without essentials (An)

3.3

- **for**: prices allocate efficiently; competition drives lower costs and innovation; consumers have choice (K + An)
- **against**: it under-provides public and merit goods, ignores external costs, and can leave the poor with too little (An)
- **judgement (Ev)**: the market works well for most goods, but a **mixed** economy usually allocates resources better