

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

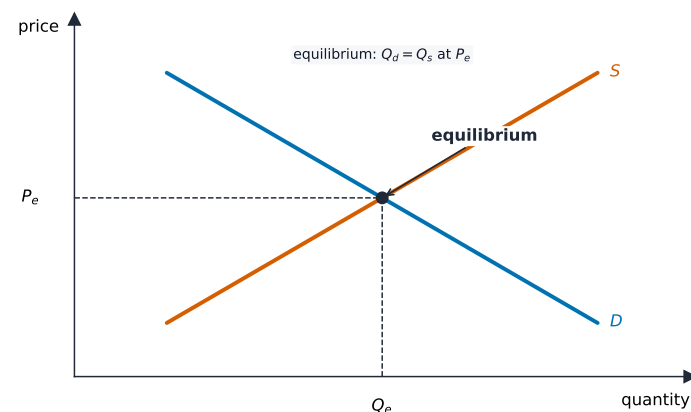
■ The market system



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 | B |
| C | D |
- 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]
