

Resource allocation in different economic systems

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Read first: [Scarcity, choice and opportunity cost](#)

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What you need to know

By the end of this topic you should be able to:

1. **Explain how decisions are made in market, planned and mixed economies:** who decides what to produce, how to produce it and for whom, and what drives those decisions (prices and profit, a central plan, or both).
2. **Explain how resources are allocated in each of these economic systems,** and weigh up the strengths and weaknesses of each, including what happens when an economy moves from one system towards another.

Understand it

The problem every system has to solve

Every economy faces scarcity: wants are unlimited and resources are limited (see the topic on scarcity, choice and opportunity cost). So every economy must answer the **three basic questions**:

- **What** to produce, and how much of each good or service?
- **How** to produce it: with which combination of land, labour, capital and enterprise?
- **For whom** to produce it: who gets the output?

An **economic system** is the way a country answers these questions: the rules, institutions and decision makers that allocate its resources. There are three types, best thought of as points on a line:

	Market (free market) economy	Mixed economy	Planned (command) economy
Who decides	Millions of consumers and firms, each acting in their own interest	Consumers and firms for most goods; the government for some	The state (a central planning authority)

	Market (free market) economy	Mixed economy	Planned (command) economy
How decisions are passed on	The price mechanism (demand and supply)	The price mechanism, plus taxes, subsidies, laws and state provision	Plans, production targets (quotas) and orders
Who owns resources	Private individuals and firms	A private sector and a public sector side by side	Mostly the state
Main motive	Profit for firms, satisfaction for consumers	Profit in the private sector, welfare in the public sector	Social welfare and the plan's targets

No real country is a pure market or a pure planned economy: every economy is mixed to some degree. What differs is **the balance** between the private and public sectors, and that balance can shift in either direction.

The market economy: decisions through prices

In a **market economy** there is no central decision maker. Resources are allocated by the **price mechanism**: the interaction of demand (consumers) and supply (firms) in each market sets a price, and that price guides everyone's decisions.

- **What?** Consumers "vote" with their spending. Goods that many people want and will pay for are profitable, so firms make them. This is **consumer sovereignty**: consumers, through demand, decide what is produced.
- **How?** Firms choose the cheapest combination of factors to make a profit, so competition pushes them towards efficient methods.
- **For whom?** Output goes to those who are **willing and able to pay**, which depends on their income and wealth.

Price does this job through three **functions**, which are worth learning by name:

1. **Rationing.** A good is scarce, so it must be shared out. The price does this: if demand for a good rises and supply is limited, its price rises until only those most willing and able to pay still buy it. Buyers who value it less drop out.
2. **Signalling** (and the **transmission of preferences**). A change in price is information. A rising price tells firms that consumers want more of something (and tells consumers it has become scarcer); a falling price signals less demand or a glut. Consumers' preferences are passed back to producers through prices, with no planner needed.
3. **Incentive.** A higher price means more profit, which gives firms a reason to act on the signal: they raise output and move resources (land, labour, capital) into that market. A falling price gives them a reason to leave, freeing resources for other uses.

$$\text{demand} \uparrow \Rightarrow \text{price} \uparrow \Rightarrow \text{profit} \uparrow \Rightarrow \text{quantity supplied} \uparrow$$

So the chain is: consumers want more → demand rises → the price rises (signal) → it becomes more profitable to supply (incentive) → firms produce more and resources move into the market, while the higher price shares out the limited supply meanwhile (rationing).

Strengths of market allocation

- **Efficiency.** Competition forces firms to keep costs down and use resources where they are most valued; inefficient firms lose customers and close.
- **Consumer choice and consumer sovereignty:** firms must make what consumers want to survive.
- **Innovation and investment:** the profit motive rewards new products and better methods, and firms invest to earn future profit.
- **Quick response:** prices adjust automatically when tastes or costs change, without waiting for a plan to be revised.
- **Little bureaucracy:** millions of decisions are made without a government office to make them.

Weaknesses of market allocation (market failure)

- **Public goods** (street lighting, defence) are not provided at all, because nobody can be made to pay for them (the classification of goods topic explains why).
- **Merit goods** (education, healthcare) are **under-provided** and under-consumed, and **demerit goods** (tobacco, alcohol) are **over-provided** and over-consumed, because people misjudge their true benefits and costs.
- **Externalities:** price reflects only the buyer's and seller's own (private) costs and benefits, not costs such as pollution that fall on others, so too much of some goods is produced and too little of others.
- **Monopoly power:** firms that grow large can restrict output and raise prices.
- **Inequality:** output goes to those who can pay, so people with low incomes may not afford necessities, while the rich can buy luxuries. Income and wealth can become very unequal.
- **Instability:** prices of some goods (for example farm products) can swing sharply.

The planned economy: decisions by the state

In a **planned economy** (also called a command economy) the **state** owns most resources (land, factories, farms) and a central authority decides:

- **What?** The planners set **output targets** for each industry, based on what they think the country needs.
- **How?** The planners allocate raw materials, machines and workers to each state enterprise and say what methods to use.
- **For whom?** The state decides how output is shared: through the wages it sets, by rationing, or by providing goods free or at low fixed prices.

Prices, where they exist, are **set by the state**, not by demand and supply, so they do not ration, signal or give incentives in the way market prices do. State firms are not trying to make a profit; they are trying to meet the plan.

Strengths of planned allocation

- **Public goods and merit goods can be provided** in the quantities the state judges to be needed, free or at low prices.
- **Greater equality**: the state can keep incomes and access to basic goods (food, housing, healthcare) more equal, so basic needs are met for everyone.
- **Full use of labour**: the state can give everyone a job, so open unemployment is low.
- **External costs and benefits can be taken into account**: the planner can weigh social costs such as pollution, not just private costs.
- **Long-term goals**: resources can be directed to priorities such as industrialisation, infrastructure or capital goods, even when they are not profitable in the short run.

Weaknesses of planned allocation

- **The information problem**: planners must decide the output of millions of goods without prices to tell them what people want, so they get it wrong. The result is **shortages** (queues) of some goods and **surpluses** (goods nobody wants) of others.
- **No profit motive and little competition, so weak incentives**: managers and workers gain little from working harder, cutting costs or improving quality. Goods are often of poor quality and there is little innovation.
- **Little consumer choice**: consumers must take what the plan provides; there is no consumer sovereignty.
- **Bureaucracy and slow response**: plans are made by large government offices and take time to change when conditions change.
- **Inefficient use of resources**: state firms that make losses are kept going, so resources are not moved to where they are most valued.

The mixed economy: both at once

A **mixed economy** allocates resources through **both** the price mechanism **and** the government. It has a **private sector** (privately owned firms selling goods for profit) and a **public sector** (state-owned enterprises and government services). The government:

- **provides** public goods (defence, street lighting) and some merit goods (schools, hospitals), paid for from taxes;
- **owns** some industries (often transport, energy, water or postal services);
- **intervenes in markets** through taxes, subsidies, maximum and minimum prices, and regulation, for example taxing demerit goods and subsidising merit goods;
- **redistributes income** through progressive taxes and benefits;
- **sets the rules**: laws on competition, property rights, consumer protection and the environment.

Most goods are still bought and sold in markets. So a mixed economy produces **private goods** (through markets) **and** public goods and merit goods (through the state).

The idea is to get the **strengths of both**: the efficiency, choice and innovation of markets, with the state correcting market failures and reducing inequality. The risks are the **weaknesses of both**: **government failure** (intervention that makes allocation worse, because governments lack information, act slowly or respond to political pressure), higher taxes that weaken incentives, and state firms that are less efficient than private ones. How well a mixed economy works depends on **how** mixed it is and on how well the government intervenes.

To tell whether an economy is mixed, look for evidence of **both** sectors: private firms competing to sell, **and** state-owned firms or government services.

Moving between systems

Since around 1990, many countries (in Eastern Europe, Russia, China, Vietnam and elsewhere) have moved from planned towards market economies. Such an economy is called a **transition economy**. Moving towards the market means:

- **privatisation**: selling state-owned firms to private owners (the opposite of **nationalisation**, which moves firms into state ownership);
- **price liberalisation**: letting prices be set by demand and supply, which means removing state-set prices, including maximum and minimum prices;
- **cutting subsidies** to state firms, and letting loss-making firms close;
- **deregulation** and allowing new private firms, competition and foreign trade and investment;
- **private property rights**: people and firms can own land, buildings and businesses.

What usually follows, at least at first:

- **prices rise** for goods that were held down by the state, which hurts people on low or fixed incomes;
- **unemployment**, especially **structural** unemployment, as inefficient state firms close and workers' skills do not match the new jobs;
- **inequality** grows, as some people gain from new businesses and others lose their jobs;
- fewer **merit goods** and public services provided free by the state;
- over time, if it works: more efficiency, choice, better quality, investment and faster growth.

The move can also go the other way. A market economy becomes **more mixed** when the government nationalises industries, provides more services, or sets more prices, taxes and regulations. This helps most where the market fails most: for example where there are many **demerit goods**, big **external costs**, or very **unequal** incomes. It helps least where government failure is likely.

Key facts and formulas

This topic has no formulas and no formula list in the exam. "Learn it" means you must remember it.

Fact	Status
Every economy must answer: what to produce, how to produce, for whom to produce	Learn it
Market economy: private ownership, decisions by consumers and firms through the price mechanism, profit motive	Learn it
Planned economy: state ownership, decisions by a central authority through plans and targets, no profit motive	Learn it
Mixed economy: private sector and public sector together; price mechanism plus government intervention	Learn it
Consumer sovereignty: consumers' spending decides what is produced (in a market economy)	Learn it
Functions of price: rationing, signalling (transmission of preferences), incentive	Learn it
Market weaknesses: no public goods, too few merit goods, too many demerit goods, externalities, monopoly, inequality	Learn it
Planned weaknesses: no price signals (shortages and surpluses), weak incentives, little choice, bureaucracy	Learn it
Towards the market: privatisation, prices set by demand and supply, fewer subsidies and price controls, deregulation	Learn it
Privatisation: state-owned to private ownership; nationalisation: private to state ownership	Learn it

How to do it

In the questions we have tagged for this topic (30 questions, 2021–2025), we counted only the parts about this topic. Four questions have two such parts (a Paper 2 data response question has parts (a) and (c), or (a) and (d); two essays have both (a) and (b)), so there are 34 parts.

Question type	Questions
Multiple choice: a feature of market, planned or mixed economies	10
Essay part (b), 12 marks: assess a change from one system to another	7
Multiple choice: moving from a planned towards a market economy	5
Essay part (b), 12 marks: how well markets allocate, or the government's role	4
Data response or essay part, 4–8 marks: judge state versus market allocation in a case	4
Explain the functions of price, or how each system answers the basic questions	3
Data response, 2 marks: explain from the case whether an economy is mixed	1

1. Multiple choice: a feature of market, planned or mixed economies (10 questions)

1. **Check which system** the stem is about, and whether it asks for a feature or for what is **not** a feature.
2. **Test each option against the table** in "Understand it": who decides, how (prices or plans), who owns resources, what motive.
3. **Watch the absolutes.** "Always", "all" and "no role" are rarely true of real systems: a mixed economy has some government role in prices; a market price reflects private costs and benefits, not always all of them.

Variations you will meet:

- **Name the system** from a description: some goods from private firms and some from the state is a mixed economy; decisions by central government is a planned economy.
- **What drives firms** in each system: in a market economy, price signals, competition and profit; in a planned economy, the plan's targets, with the state able to weigh social costs.
- **What is not a feature** of a system: find the option that belongs to a different system.
- **Rarer variants:** which types of good a mixed economy provides, when moving from a market to a mixed economy helps most, and which feature of planning suits producers but not consumers. Work each out from the strengths and weaknesses lists: who gains and who loses from each feature.

2. Essay part (b), 12 marks: assess a change from one system to another (7 questions)

Planned → market, planned → mixed, market → mixed, or a mixed economy using the market less. Levels-marked: Table A gives up to **8** marks for knowledge and analysis (AO1 + AO2: Level 3 is 6–8, Level 2 is 3–5, Level 1 is 1–2) and Table B up to **4** for evaluation (AO3: Level 2 is 3–4, with a justified conclusion; Level 1 is 1–2). A one-sided answer can reach only Level 2 in Table A and gets **no** evaluation marks.

Answer plan, about two sides of writing:

1. **Brief definitions** of the two systems in the question, only as much as your analysis needs (no marks are given just for defining the terms).
2. **Side one: why the change is beneficial**, two or three developed chains. For planned → market: prices signal what consumers want → firms respond to profit → resources move to where they are most valued → less waste, fewer shortages; competition → lower costs, better quality, more choice; profit → innovation and investment → growth.
3. **Side two: why it may not be**, two or three developed chains: public goods not provided, merit goods under-provided, demerit goods over-provided, external costs ignored, monopolies, inequality; and the costs of the change itself (price rises, structural unemployment as state firms close).
4. **Evaluation:** what the answer depends on: **how far** the change goes (to a market or a mixed economy), the **time period** (costs come first, gains later), how **efficient** the government is, the country's **stage of development**, and **who** is asked about (consumers, workers, producers).
5. **A justified conclusion** that answers the exact question, including the word "always" or "should".

Variations you will meet:

- **"Does it always benefit consumers?"** Keep the focus on consumers: choice, prices, quality, access to merit goods, and the incomes that let them buy. Wider effects on the economy only count if linked to consumers.
- **"Discuss the disadvantages of a planned economy and whether the transition is of overall benefit":** analyse the planned economy's weaknesses first, then both sides of the transition.
- **"Should a planned economy always switch to a mixed economy?"** Compare planned with **mixed**, not with a pure market; a mixed economy keeps state provision where markets fail.
- **A mixed economy reducing the role of the market** (more government): side one is the government's strengths (public and merit goods, equity, national interest); side two is government failure, weaker incentives, less choice and lower quality.

3. Multiple choice: moving from a planned towards a market economy (5 questions)

1. **Recall the direction:** towards the market means less state ownership, and more decisions left to prices, profit and competition.
2. **For each option ask:** does it hand a decision from the state to the market (consistent), or keep or add state control (not consistent)?
3. **Cross out** policies that are about something else: a policy can be government intervention (a tariff, a subsidy, a price control, free provision) without being about the change of system, and a swap of one government policy tool for another is not a change of system.

Variations you will meet:

- **Which policy is consistent with the move:** privatisation, removing a state-set price, letting prices vary.
- **Which is least likely to be adopted, or least likely to increase:** think about what the state stops doing (owning firms, fixing prices, providing services free) and what the market brings (private ownership, price changes, structural unemployment).

4. Essay part (b), 12 marks: how well markets allocate, or the government's role (4 questions)

"Is the allocation of resources by the free market always beneficial (or always the best way to answer the three basic questions)?" Same level tables and plan as type 2:

1. **Side one: the price mechanism's strengths**, each as a chain: rationing, signalling and incentives; consumer sovereignty; efficiency through competition; innovation and investment through profit.
2. **Side two: market failure**, each as a chain: public goods, merit and demerit goods, externalities, monopoly, inequality.
3. **Compare with another system** (planned or mixed): "always the best" needs a comparison, because a system can only be best compared with the others.
4. **Judgement:** markets allocate most private goods well, but not goods with big external effects or information problems; so a mixed economy is usually better, depending on how well the government intervenes.

Variations you will meet:

- **Should the government in a mixed economy provide only public goods** and leave merit goods to the private sector? Be precise about the difference (public goods: non-rival and non-excludable, so markets do not provide them at all; merit goods: markets provide them, but too few), then argue both sides for merit goods.
- **Does direct provision by the government stop the price mechanism working?** Side one: state provision free or at a set price removes rationing, signalling and incentives in that market; side two: the rest of the economy still uses prices, and state provision may fix a market that was failing anyway.

5. Data response or essay part, 4–8 marks: judge state versus market allocation in a case (4 questions)

A short case (a state-owned industry, a government buying and selling stocks to steady prices, free public services) and a question such as "consider the extent to which...". Point-marked: usually up to 2 marks a side, or up to 3 a side for 6 marks, plus 1 or 2 marks for a judgement.

1. **Advantages** of state allocation in this case, each linked to the group named in the question (consumers, the economy): for example lower prices through state funding, supply in the national interest, access for all.
2. **Disadvantages**, each linked the same way: higher costs without a profit motive, out-of-date equipment, less investment and innovation, less choice, and distorted price signals.
3. **Use the case:** quote its facts and figures to support each point.
4. **A judgement:** which side is stronger here and why.

Variations you will meet:

- **Does government action help the price mechanism work?** Help: smoothing sharp price swings gives clearer, steadier signals and incentives. Harm: prices no longer reflect changes in demand and supply, so they cannot ration, signal or give incentives properly.
- **A PPC version (8 marks):** showing on a production possibility curve how a mixed-economy government moves resources between consumer and capital goods (a movement along the curve), how it does it (taxes, subsidies, its own spending) and a limitation such as time lags (see the topic on production possibility curves).

6. Explain the functions of price, or how each system answers the basic questions (3 questions)

1. **Name each function or question separately**, with a short definition: rationing, signalling (transmission of preferences), incentive; or what, how, for whom.
2. **Explain how it works in the system asked about**, as a chain: demand rises → price rises → ...
3. **If the command word is "consider"**, judge which function matters most for a market economy to work, and conclude; if it is only "explain", don't spend time evaluating.

Variations you will meet:

- **8 marks, functions of price:** knowledge of at least two functions well explained (one function alone earns at most 1 of the 3 knowledge marks), why each matters to a market economy, then a judgement.
- **8 marks, planned and market:** how each system answers what, how and for whom (the state's plan; the price mechanism). Stay on "how", not on which system is better.
- **2 marks, "price acts as a signal of scarcity":** scarcity means limited supply must be shared among buyers, so price rations it (1); when demand rises relative to supply the price rises, which signals scarcity and gives an incentive to supply more (1).

7. Data response, 2 marks: explain from the case whether an economy is mixed (1 question)

1. **Define** a mixed economy: resources are owned and allocated by both a private sector and a public sector (1).
2. **Quote evidence of both** from the text: private firms competing **and** state-owned firms or government services (1). Evidence of only one sector does not earn the mark.

Worked examples

Example 1

Which row describes a planned economy?

	who owns most of the capital	how most prices are set
A	private owners	by demand and supply
B	private owners	by the government
C	the state	by demand and supply
D	the state	by the government

[1]

In a planned economy the state owns most resources, and a central authority decides output and prices instead of the price mechanism. The answer is **D**. (1)

A is a market economy. B and C mix features of the two systems.

Example 2

Which change would move a mixed economy closer to a planned economy?

- **A** The state airline is sold to private shareholders.

- **B** The government removes a maximum price on house rents.
- **C** The government takes over all private bus companies and sets their fares and routes.
- **D** The government cuts the tax on company profits.

[1]

A planned economy has more state ownership and more decisions made by the state instead of by prices. Taking bus companies into state ownership (nationalisation) and setting fares by decision does both. The answer is **C**. (1)

A (privatisation) and B (letting rents be set by demand and supply) move the economy towards the market. D raises the reward for private enterprise, which also leans towards the market.

Example 3

Country R's government owns the only company that supplies landline telephone and internet services. Most other goods, from food to cars, are sold by private firms. The state company's charges are among the lowest in the region, but customers wait months for a new connection and internet speeds are slow. The government now plans to sell the company to private investors, and two private firms have said they will compete with it.

(a) Using the information, explain whether Country R is a mixed economy. [2]

(b) Consider the extent to which selling the state company to private investors will benefit consumers. [4]

(a) A mixed economy is one in which resources are owned and allocated by both a private sector and a public sector (1). Country R has both: most goods are sold by private firms, and the government owns the telephone and internet company, so it is a mixed economy (1).

(b) Consumers may benefit because a privately owned firm facing two new competitors has a profit incentive to cut costs and improve its service, for example by connecting customers faster, or it will lose them to its rivals (1). The profit motive also gives it a reason to invest in faster internet, because better service can be sold at a higher price, so quality should improve (1).

However, consumers may lose because a private owner aims for profit, not the national interest, so charges, which are now low because the state keeps them down, may rise (1). A private firm may also stop serving remote areas where connections are costly and unprofitable, so some consumers could lose access (1).

(Up to 2 marks a side; 3 marks at most for the two sides together.)

On balance, consumers are likely to gain, because the case says two competitors will enter, so the firm cannot raise prices far without losing customers, and the present low prices come with long waits and slow speeds; but the gain depends on competition really developing and on the government requiring service to remote areas (1, judgement).

Total: 3 + 1 = 4.

Example 4

Explain how a planned economy answers the questions of what, how and for whom to produce, and consider whether it is likely to answer them efficiently. [8]

A planned economy is one in which the state owns most resources and a central planning authority, not the price mechanism, allocates them (AO1, 1). Because resources are scarce, every economy must decide what to produce, how to produce it and for whom (AO1, 1). In a planned economy prices are set by the state, so they do not ration goods or signal what consumers want (AO1, 1).

What: the planners set output targets for each industry, based on the needs they judge to be most important, such as food, housing or steel, rather than on consumers' spending (AO2, 1). **How:** the planners allocate raw materials, machines and workers to each state enterprise and tell it which methods to use, so they can choose labour-intensive methods to give everyone a job (AO2, 1). **For whom:** the state decides who gets the output through the wages it sets, rationing, and free or low-priced provision of goods such as healthcare, so it can share output more equally than a market would (AO2, 1).

It may answer "for whom" well, because basic goods can reach everyone regardless of income, but it is unlikely to answer "what" and "how" efficiently: without prices the planners cannot know the preferences of millions of consumers, so some goods are in shortage while others pile up unsold, and state firms have no profit motive to cut costs or improve quality (AO3, 1).

So a planned economy is likely to allocate resources fairly but inefficiently, because the information that prices carry in a market is missing; it works best for a few priority goods, such as public goods, rather than for the whole economy (AO3, 1, justified conclusion).

Total: $3 + 3 + 2 = 8$.

Example 5

Assess whether a planned economy is better than a market economy at deciding for whom goods and services are produced. [12]

Introduction. "For whom" is the question of who receives an economy's output. In a market economy output goes to those willing and able to pay, so it depends on how income and wealth are shared; in a planned economy the state decides, through the wages it sets and the goods it provides.

The case for the planned economy. The state can share out output according to need rather than income. Basic goods such as food, housing and healthcare can be provided free or at low fixed prices, so even the poorest households can obtain them, which a market does not guarantee. Because the state sets wages and gives everyone a job, the gap between the highest and lowest incomes is kept narrow, so the output of the economy is shared more equally. The state can also provide merit goods such as education in the amounts it judges people need, rather than the smaller amounts people would buy if they had to pay, so future generations gain skills whatever their parents' income.

The case for the market economy. In a market, output goes to those who value it most and are willing to pay for it, so goods are not wasted on people who do not want them, and the price rations the goods that are scarce. Because people keep what they earn, they have an incentive to work, train and start businesses, so the economy grows and there is more output to share: a smaller share of a much larger total can leave even poorer households better off. In a planned economy, fixed low prices create shortages, so goods go to those who queue longest or have connections to officials, which is neither fair nor efficient.

Limits on each side. The market's answer can leave people with low incomes unable to afford necessities, and inequality tends to grow over time as wealth passes from generation to generation. The planner's answer depends on planners knowing what each household needs and acting in the public interest; weak incentives also shrink the total to be shared.

(Table A: developed chains on both sides, focused on "for whom" and using the functions of price: Level 3, 8 marks.)

Evaluation and conclusion. A planned economy is better at making sure **everyone** receives basic goods, so on fairness it answers "for whom" better. But how much each person receives also depends on how much is produced, and weak incentives and shortages mean the planned economy usually has less to share. Which is better depends on whether a society values equality over growth, and on how well the state knows what households need. The strongest answer is often a mixed economy: markets decide for whom most goods are produced, while the state uses taxes, benefits and free merit goods to make sure no one goes without necessities.

(Table B: a developed, balanced judgement that answers the question and says what it depends on: Level 2, 4 marks.)

Total: $8 + 4 = 12$.

Common mistakes

- **Writing "all I know" about the three systems.** Examiners in 2022 and 2023 found many answers described planned, market and mixed economies in general instead of answering the question set, and so earned little. Use only what the question needs.
- **Comparing the wrong systems.** Read carefully whether the question is about a move to a **market** economy or to a **mixed** economy; examiners report candidates who wrote about one when the question asked about the other.
- **Asserting instead of explaining.** "Market economies are more efficient" earns nothing on its own; say **why** (competition, profit, price signals) and with what result.
- **Vague functions of price.** The March 2023 report found weak understanding of rationing, signalling and incentives. Name each function and explain how it works, with a price change as the start of the chain.
- **Defining terms in part (b) at length.** No marks are given in part (b) just for explaining the terms in the question; spend the time on analysis.
- **Mixing up public goods and merit goods.** Public goods are not provided at all by markets; merit goods are provided, but too few. Essays on the government's role need this difference.

- **Summary instead of evaluation.** Repeating the points is not a judgement. Weigh them: say which matters more, in what circumstances, and why. Examiners note that four of the twelve marks are for evaluation, and many answers give almost none.
- **No conclusion on "consider" and "discuss" questions**, or a conclusion with no reason. The conclusion mark needs a justified answer to the exact question.
- **Evaluating when the command word is "explain".** Only "consider", "assess", "discuss" and "to what extent" ask for a judgement.
- **Treating any real economy as purely market or purely planned.** All real economies are mixed to some degree; the question is the balance.

How to get the marks

- **Command words.** *Explain*: reasons linked by "because", "so", "which means". *Consider, assess, discuss*: explain both sides, then judge.
- **Part (a) (8 marks) is point-marked, 3 + 3 + 2.** Definitions and knowledge (AO1), developed explanation of each point (AO2), "it depends on..." plus a justified conclusion (AO3).
- **Part (b) (12 marks) is levels-marked, 8 + 4.** Level 3 in Table A needs developed, accurate analysis of **both** sides focused on the question; the top level in Table B needs a judgement that answers the question and says why. A one-sided answer loses all 4 evaluation marks.
- **Data response parts** are point-marked: a set number of marks for each side and one reserved for a conclusion. Use the case's facts in each point.
- **Chain every point:** cause → mechanism → effect → who gains or loses. For markets, the mechanism is almost always the price mechanism (rationing, signalling, incentive).
- **Use the exact terms:** price mechanism, consumer sovereignty, profit motive, public sector, private sector, privatisation, nationalisation, market failure, government failure.
- **Evaluation ideas that fit most questions:** how far the change goes, the time period, the efficiency of the government, the stage of development, and which group is affected.
- **Multiple choice:** one mark each, no penalty for guessing; read for "not", "least likely" and "most likely" before checking the options.

Quick check

1. In a market economy, what mainly tells firms that consumers want more of a product?
 - **A** a production target set by the government
 - **B** a rise in the product's price
 - **C** a rise in the tax on the product
 - **D** a fall in the product's price
2. For each, say whether the decision is made mainly through a market, by a planner, or whether the economy described is mixed: (a) a state office sets the number of tractors each factory must make next year; (b) a clothing firm makes more jackets after their price rises; (c) the government runs free primary schools and

hospitals while private firms produce most other goods.

3. Explain two functions of price in allocating resources. [4]
4. A country moves from a planned towards a market economy. State two policies it is likely to introduce, and explain one problem that may follow for workers. [4]
5. Which is a strength of a planned economy compared with a market economy?
 - **A** Firms respond quickly to changes in consumers' tastes.
 - **B** Resources can be directed to goods the state judges everyone needs, whatever their income.
 - **C** Competition keeps costs and prices low.
 - **D** The profit motive encourages innovation.

Answers

1. **B.** A rising price signals that consumers want more, and the extra profit gives firms the incentive to supply it. A is how a planned economy decides; C is government intervention; D would signal the opposite. (1)
2. (a) **Planner:** the state sets output targets. (b) **Market:** the firm responds to a price signal and the profit incentive. (c) **Mixed:** the state provides some services while private firms produce most goods.
3. Rationing: when a good is scarce, its price rises until only those most willing and able to pay buy it, so the limited supply is shared out (1) (1). Signalling: a rise in price tells firms that consumers want more, passing consumers' preferences to producers (1), so resources move into that market (1). (The incentive function, higher prices meaning higher profit so firms produce more, is an equally good second point.)
4. Any two of: privatising state-owned firms; letting prices be set by demand and supply (removing state-set prices); cutting subsidies to state firms; allowing new private firms and competition (1) (1). Problem: loss-making state firms close (1), so workers lose their jobs, and those whose skills do not match the new industries face structural unemployment (1).
5. **B.** The state can provide basic and merit goods to everyone, not only to those who can pay. A, C and D are strengths of a market economy. (1)

Past questions to try

- **9708/12/M/J/21 Q2:** which feature of planning might suit producers but not consumers.
- **9708/22/M/J/22 Q2:** the disadvantages of planning, and whether moving to market allocation is of overall benefit (part (b)).
- **9708/22/F/M/23 Q2:** the functions of price, then whether all market economies should become mixed.
- **9708/23/O/N/21 Q2:** how each system tackles the economic problem, and the government's role in a mixed economy.