Skoolumy

CAMBRIDGE A LEVEL ECONOMICS TOPICAL ESSAY QUESTIONS

ECONOMIC SYSTEM

PAST QUESTIONS

1. Discuss whether the operation of a market economy always produces a desirable outcome. [12]

2. Explain the differences in the features of a market economy and a planned economy. [8]

3. When a planned economy introduces the price mechanism to allocate some resources, a mixed economy arises.

Discuss the advantages of a mixed economy and whether it is always preferable to a planned economy. [12]

4. Discuss what the most significant issues of transition are that a country will face as it moves from a planned economy to a mixed economy. [12]

5. (a) Explain the functions of an economic system. [8]

(b) Discuss possible reasons why mixed economic systems have replaced most of the former planned economic systems. [12]

6. Discuss the difficulties involved in changing a planned economy to a successful market economy. [12]

7. Discuss the view that a market economy is always preferable to a planned economy because of the existence of the price mechanism. [12]

8. Discuss the desirability of the worldwide movement towards the market economy and away from the planned economy. [12]

9. Discuss whether a market economy can solve the problem of scarcity more effectively than a command economy. [12]

10. Assess whether a planned economic system should always switch to a mixed economy. [12]

11. Assess whether consumers always benefit when the government of a mixed economy reduces the role of the market mechanism in allocating resources. [12]

12. Assess whether a market economy is always the best economic system to effectively answer the three basic questions of resource allocation. [12]

13. (a) Explain the functions of price in resource allocation and consider the importance of these functions in relation to the potential effectiveness of a market economy. [8]

(b) Assess whether all market economies should become mixed economies. [12]

MARK SCHEME

Table A: AO1 Knowledge and understanding and AO2 Analysis

Level	Description	Marks
3	• A detailed knowledge and understanding of relevant economic concepts is included, using relevant explanations. Explanations are supported by examples, where appropriate. • The response clearly addresses the requirements of the question and explains economic issues, and fully develops these explanations. • Analysis is developed and detailed and makes accurate and relevant use of economic concepts and theories. Where necessary, there is accurate and relevant use of analytical tools such as diagrams and formulae, and these are fully explained. • Responses are well-organised, well-focused and presented in a logical and coherent manner.	6–8
2	• Knowledge and understanding of some relevant economic concepts is included, using explanations and examples that are limited, over-generalised or contain inaccuracies. • The response addresses the general theme of the question and the relevant economic issues, with limited development. • Analysis is generally accurate with some development but little detail. Uses analytical tools such as diagrams and formulae where necessary. Use of these tools is partially accurate or not fully explained. • Responses are generally logical and coherent but are sometimes lacking in focus or organisation.	3–5
1	• A small number of relevant knowledge points are included and the response is limited by significant errors or omissions. • The response has little relevance to the question. • Analysis where provided is largely descriptive. Use of analytical tools such as diagrams and formulae, where necessary, may contain significant errors or be omitted completely. • Responses show limited organisation of economic ideas.	1–2
0	No creditable response.	0

Table B: AO3 Evaluation

Level	Description	Marks
2	• Provides a justified conclusion or judgement that addresses the specific requirements of the question. • Makes developed, reasoned and well-supported evaluative comment(s).	3–4
1	• Provides a vague or general conclusion or judgement in relation to the question. • Makes simple evaluative comment(s) with no development and little supporting evidence.	1–2
0	No creditable response.	0

1. A properly functioning market economy should provide choice, quality and competition. It should make economic use of resources and avoid waste. It is an efficient system of resource allocation and has outperformed planned economies. However, it has drawbacks such as the production of externalities and demerit goods and the failure to provide public and merit goods.

Knowledge of the nature of the market system up to 4 marks

Justification of desirable outcome up to 6 marks

Discussion of the failings of the market economy up to 6 marks, subject to maximum of 8 in total for this and the previous line

2. Individual actions and consumer sovereignty dominate in the market economy. Motivation is self interest. Private ownership, the profit motive and the operation of market forces are central features. In a planned economy there are government ownership, planning bodies and the state direction of resources. Motivation is public interest. Decisions by the government dominate economic activity.

Explanation of the features of a market economy up to 4 marks

Explanation of features of a planned economy up to 4 marks

3. Analysis:

Analysis of the advantages and disadvantages of a mixed economy.

(Up to 4 marks)

Analysis of the advantages and disadvantages of a planned economy.

(Up to 4 marks)

8 marks maximum

Evaluation:

For exercising some judgement on whether a mixed economy is always preferable to a planned economy. (Up to 4 marks)

Reserve 1 mark for a conclusion

4 marks maximum

Guidance:

Advantages of a mixed economy:

• the price mechanism is allowed to operate in many areas, facilitating its functions of rationing, signalling and the transmission of preferences

• a government is able to intervene in a market, e.g., through a maximum price or a minimum price

• some industries may be nationalised by the government

Disadvantages of a mixed economy:

• the workings of the price mechanism may be adversely affected by a government, e.g., taxes and subsidies

• possibility of market failure

Advantages of a planned economy:

• a government may decide to directly provide certain goods and services

Disadvantages of a planned economy:

• greater role for a government leads to more bureaucracy and less efficiency

• the lack of competition could lead to poorer quality and restricted choice

4. Analysis:

The issues of transition:

• Inflation

• Output

• Employment/Unemployment

• Industrial unrest

• International trade

• Welfare

• Specialised support markets and services

Allow up to 4 marks for each issue analysed

(AN: up to 8 marks)

Evaluation:

For exercising some judgement on the extent to which the issues of transition will make a change from a planned economy to a mixed economy extremely difficult for a country to achieve

Up to 3 marks plus 1 mark for a conclusion.

(EV: up to 4 marks)

Guidance:

The issues of transition:

• In a planned economy, the state can play a key role in keeping prices stable, but in a mixed economy at least some of the prices are determined by the forces of demand and supply, so there is more price instability and possibly inflation.

• In a planned economy, the state can support relatively inefficient firms and industries, but in a mixed economy, these firms and industries, if inefficient, may not survive and so there may be a fall in output

• Private sector firms will aim to maximise profits, but this could lead to them laying off some workers, increasing the level of unemployment

• There may be a greater likelihood of industrial unrest in a mixed economy than in a planned economy

• Possibly new international trading relationships will need to be established

• In a planned economy, the state can provide welfare support for everybody; in a mixed economy, there may be a reduction in the level of welfare provision

• The specialised markets and services that will be required, e.g. banking and legal services, may take a long time to become sufficiently established.

5. (a) An economic system is the means by which a country answers the basic economic problem. Limited resources and unlimited wants result in scarcity and choices have to be made. The system allows the questions of what?, how?, and for whom? to be answered. It arranges for resources to be employed to meet demands and for producers and consumers to be satisfied. This may be done by the price system, state planning or a mixture of the two.

Understanding of the economic problem	2 marks
Explanation of the role of the economic system	6 marks

(b) Planned economies are based on state control and direction while a mixed economy uses the market system supported by appropriate government intervention. Recent history illustrates the failure of the planned economy to raise living standards and perform as well as mixed economies. Mixed economies proved more efficient, more innovative, more flexible and provided greater choice and higher living standards. Planned economies were unable to coordinate economic decision making, lacked incentives, lacked quality control, were slow to change and caused considerable environmental damage. Despite the attempts of planned economies to provide citizens with security and a minimum standard of living, the advantages of the mixed economy were more highly valued.

Understanding of the two types of system 2 marks

Analysis of the performance of the planned system up to 6 marks max

Discussion of the relative merits of the two systems up to 6 marks 10

6. A planned economy relies on state control and direction while a market economy involves private activity and operation of demand and supply. To make a successful transfer, markets need to exist, as does the profit motive, competition, incentives, private property, free trade, decentralised activity, limited state intervention, the tolerance of economic failure and support for business casualties. The ease of introducing these varies, some can be done in a short time at low cost e.g. the sale of state assets, while others may take a long time and have limited success e.g. changing attitudes to risk. A range of other difficulties may be considered e.g. provision of public goods, merit/demerit goods, externalities, inequality etc. Some may result in a 'soft landing', others a 'hard landing'. A partial change may face fewer difficulties.

Understanding of the planned and market economy 2 marks

Analysis of the changes necessary 4 marks

Discussion of the difficulties in producing a successful outcome 6 marks

Overall evaluation 1 mark

7. For an analysis of the two types of economy and the role of the profit motive in the free market economy. (up to 8 marks)

Candidates should explain the difference between the two types of economy in terms of resource allocation. The role of the factor enterprise in responding to the wants of the consumer through the price mechanism in the market economy should be explained and the role of profit made clear.

NB Up to a maximum of 4 marks for a general answer that does not focus on the existence of the price mechanism.

For evaluative comment on the 'always preferable' aspect of the question. (up to 4 marks)

Candidates can score for evaluative comment through an examination of the advantages and disadvantages of the free market economy and the role of the price mechanism in such an economy. Advantages include consumer sovereignty. Disadvantages include the non-provision of public goods and the over provision of demerit goods.

8. The market economy has limited government intervention and relies on the profit motive and consumer sovereignty. It has proved more successful in raising living standards, economic growth and economic efficiency. Consumers benefit from more choice and lower prices. Planned economies were state-run with economic plans and large scale government intervention. The result was low living standards although employment was usually available and a basic quality of life resulted. The move to market economies brought beneficiaries and casualties. Russia illustrates the increase in millionaires while unemployment and poverty grew. Some East European economies are making fast progress while some former USSR republics are struggling.

Candidates may consider the case of China.

Understanding of the features of economic systems (4)

Discussion of the benefits of the transition (4)

Discussion of the harm of the transition (4)

9. A market economy involves minimal government intervention and relies on private motives and ownership. A command economy is directed by the government with public motivation. Scarcity occurs when there is insufficient output to meet peoples' wants at zero price. Scarcity arises because of limited resources and unlimited wants and is shown by the area outside of a ppc. The market economy may appear to reduce the extent of scarcity more by operating efficiently and improving the supply of goods and services, however the wants of consumers expand as more basic needs are satisfied so scarcity remains. The command economy has achieved lower living standards but with a more even distribution. Economic systems are unlikely ever to remove the problem of scarcity, although its nature may differ under different systems.

For understanding of the economic systems and scarcity up to 4 marks

For analysis of the ability of each to reduce scarcity up to 6 marks } max

For discussion of the meaning and solution of scarcity up to 6 marks } 10

10. AO1 and AO2 out of 8 marks. AO3 out of 4 marks.

Indicative content

Responses may include:

AO1 Knowledge and understanding and AO2 Analysis

•Analysis of both the potential advantages and disadvantages of a planned economic system including the emphasis on welfare and provision of public and merit goods. However, the lack of competition may mean a lack of efficient allocation of goods etc.

•Analysis of both the potential advantages and disadvantages of a mixed economy including the fact that it possibly contains the best features of both a planned and a market economy, but this depends on how mixed it actually is. This may also include an assessment of the ease of the switch itself.

Level 1 responses will be assertive and lacking in explanations / mainly descriptive and/or or mainly lacking in relevance to the question.

Level 2 responses may contain some inaccuracies and will be one sided. Analysis will be explained at least in part and will be largely relevant to the question.

Level 3 responses will consider alternative policies/concepts etc. and will be balanced. Explanations of points raised will be offered and will be accurate and relevant to the question.

AO3 Evaluation

•For an evaluation of both the advantages and disadvantages of planned and mixed economies leading to:

• A valid conclusion.

Accept all valid responses.

AO1 Knowledge and understanding and AO2 Analysis 8

AO3 Evaluation 4

11. AO1 and AO2 out of 8 marks. AO3 out of 4 marks.

Indicative content

Responses may include:

AO1 Knowledge and understanding and AO2 Analysis

The **advantages** of the market mechanism in a mixed economy might include:

• Decisions are made by individual consumers and individual producers who act in their own self-interest.

• Resources are allocated by a price mechanism without the need for very much government intervention.

The **disadvantages** of the market mechanism in a mixed economy might include:

• Some products will be underprovided and underconsumed, e.g. a merit good such as education, while some products will be overprovided and overconsumed, e.g. a demerit good such as tobacco.

• Some products will not be provided, e.g. a public good such as police.

The **advantages** of government intervention in a mixed economy might include:

• Government intervention in the allocation of resources means it can take decisions in the national interest.

• The government could create a more equitable distribution of income.

The **disadvantages** of government intervention in a mixed economy might include:

• Government control could lead to an inefficient allocation of resources.

• Lack of competition/profit motive could lead to products of lower quality.

Level 1 responses will be assertive and lacking in explanations/mainly descriptive and/or mainly lacking in relevance to the question.

Level 2 responses may contain some inaccuracies and will be one-sided. Analysis will be explained at least in part and will be largely relevant to the question.

Level 3 responses will consider alternative policies/concepts etc. and will be balanced. Explanations of points raised will be offered and will be accurate and relevant to the question.

AO3 Evaluation

• Evaluation of relative balance of advantages and disadvantages of each.

• In conclusion, consideration of whether consumers will always benefit when the government of a mixed economy reduces the role of the market mechanism in allocating resources.

Accept all valid responses.

A one-sided response cannot gain any marks for evaluation.

AO1 Knowledge and understanding and AO2 Analysis 8

AO3 Evaluation 4

12. AO1 and AO2 out of 8 marks. AO3 out of 4 marks.

Indicative content

Responses may include:

AO1 Knowledge and understanding and AO2 Analysis

• The advantages and disadvantages of the market system in deciding what to produce, how to produce and for whom to produce should focus on the price mechanism without any government involvement.

• May include discussion of the profit motive, consumer sovereignty, consumer choice, overproduction of demerit goods, underproduction of merit goods, lack of public goods etc.

• A comparison with another market system e.g., planned economy or mixed economy is needed to answer the question 'always the best'.

Level 1 responses will be assertive and lacking in explanations / mainly descriptive and/or or mainly lacking in relevance to the question.

Level 2 responses may contain some inaccuracies and may be one sided. Analysis will be explained at least in part and will be largely relevant to the question.

Level 3 responses will consider alternative policies / concepts etc. and will be balanced. Explanations of points raised will be offered and will be accurate and relevant to the question.

AO3 Evaluation

• Requires an assessment of the strengths and weaknesses of at least one other type of economic system in answering the three basic questions of resource allocation. Leading to

• A justified conclusion as to whether the market economy is always the best economic system.

A one-sided response cannot gain any marks for evaluation.

AO1 Knowledge and understanding and AO2 Analysis 8

AO3 Evaluation 4

13. (a)

• up to 3 marks for AO1 Knowledge and understanding up to 3 marks forAO2 Analysis

• up to 2 marks for AO3 Evaluation.

AO1 Knowledge and understanding (max 3 marks)

A clear knowledge and understanding of at least two functions of price in resource allocation:

• rationing (1)

• signalling (transmission of preferences) (1)

• incentivising (1)

Two functions well explained can gain 3 marks; 1 function explained can

achieve a maximum of 1 mark.

AO2 Analysis (max 3 marks)

An analysis of the importance of rationing (1), signalling (transmission of preferences) (1) and incentivising (1) to the operation of a market economy.

Note: this must be in the context of a market economy.

AO3 Evaluation (max 2 marks)

Offers a valid judgement on the importance of at least two functions in relation to the potential effectiveness of a market economy (1) to reach a justified conclusion. (1)

AO1 Knowledge and understanding 3

AO2 Analysis 3

AO3 Evaluation 2

(b) AO1 and AO2 out of 8 marks. AO3 out of 4 marks.

Indicative content

Responses may include:

AO1 Knowledge and understanding and AO2 Analysis

• **NO:** Explanations of why market economies should remain as they are e.g., because there is no (or minimal) government intervention, decisions are taken on the basis of demand and supply, competition is encouraged and so production is more efficient, and consumers and producers act on their own self-interest.

• **YES:** Explanations of why market economies should become mixed economies e.g., because in a market economy there is non-provision of public goods, the under-consumption of merit goods, the overconsumption of demerit goods and the existence of markets where prices are too low, too high, or too unstable.

A one-sided response can only gain a maximum of Level 2.

AO3 Evaluation

Evaluation of whether all market economies should become mixed economies leading to a justified conclusion.

Points to consider may include whether governments should provide public goods, merit goods, reduce the provision of demerit goods, intervene in the price mechanism etc.

A one-sided response cannot gain any marks for evaluation.

Accept all valid responses.

AO1 Knowledge and understanding and AO2 Analysis 8

AO3 Evaluation 4