1.28 Economic Systems: Market, Mixed and Planned Economies: 30-minute Pack

AQA 7136 · Calculators not allowed · about 30 minutes

Total Marks

Name: _____ Date: ____ / ____ / _____

Answer all questions. Allow about 30 minutes. Write working where calculations or stepwise reasoning are required.

1 Evaluate the view that a mixed economy is always preferable to a purely free market economy for allocating resources.

(Total for Question 1 is 15 marks)

2 Distinguish the price mechanism in a market economy from central planning in a command economy, focusing on how each determines 'what to produce'.

(Total for Question 2 is 3 marks)

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3 Explain the role of private property and the profit motive in allocating resources in a market economy.

(Total for Question 3 is 3 marks)

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Mark scheme · 1.28 Economic Systems: Market, Mixed and Planned Economies: 30-minute Pack

Question 1

Level 1 Basic or partial explanations of the differences between mixed and free market economies, limited application and little or no evaluation. Judgement, if present, is unsupported or asserted. **1-5**

Level 2 Clear analysis of how mixed and free market economies address the what/how/for whom questions, with relevant examples. Some evaluation of trade-offs between efficiency and equity, and consideration of incentives or information problems. Judgement is present but may be qualified. **6-10**

Level 3 Comprehensive analysis that integrates efficiency, equity, incentives and information constraints, including real-world examples and counterarguments. Evaluation weighs strengths and weaknesses, considers magnitude and time periods, and reaches a balanced, well-supported judgement. **11-15**

Indicative content:

- Arguments that mixed economies are preferable: they combine market efficiency with government provision to correct market failures, provide public goods and redistribute income; examples such as Nordic welfare states providing high living standards while maintaining vibrant private sectors
- Arguments favouring free markets: superior incentives for innovation and efficiency, faster responsiveness to consumer preferences, lower public-sector distortion and potential for higher growth; examples of dynamic private sectors in largely market-oriented economies
- Consider information problems and practical constraints: governments face knowledge and incentive problems in central planning and risk of regulatory capture, while markets can fail due to externalities, public goods, monopoly power and unequal distribution
- Consider trade-offs and magnitude: the extent of market failure, the effectiveness and cost of government intervention, and the risk that excessive intervention undermines incentives; short-term versus long-term effects
- Distributional and political considerations: social preferences for equity, political feasibility, administrative capacity and corruption risks that affect whether mixed systems actually deliver benefits
- Possible conclusion: mixed economies are often preferable in practice because they can combine advantages of markets and state provision, but they are not always preferable in all contexts; effectiveness depends on design, institutional quality and the specific challenge being addressed

Question 2

price mechanism: consumer demand and relative prices signal to firms what is profitable to produce, so 'what to produce' responds to willingness to pay **B1**

central planning: planners set production targets and output mixes according to a plan or political priorities, not price signals **B1**

contrast: market uses decentralised information and incentives via prices and profit, while command uses centralised information and administrative directives **B1**

Answer: Price mechanism relies on prices and profit signals from consumers and firms to decide what to produce; central planning uses state targets and directives to set output regardless of market prices.

Question 3

private property gives owners control over resources and the right to buy, sell or hire them, creating incentives to use resources productively **M1**

the profit motive incentivises firms to supply goods and services consumers value, encouraging efficient production and innovation **A1**

together these mechanisms direct investment and entrepreneurship towards activities that promise returns, thereby shaping resource allocation **B1**

Answer: Private property secures owners control and incentives to use resources productively; the profit motive drives firms to produce goods consumers value and to innovate, directing resources where returns are expected.

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