1.28 Economic Systems: Market, Mixed and Planned Economies

Total Marks

AQA 7136 · Calculators not allowed · about 60 minutes · Write-in edition

Name: _____ Date: ____ / ____ / _____

Answer all questions. Allow about 60 minutes. Write working where calculations or stepwise reasoning are required.

1 Explain how a command economy typically answers the 'for whom' question, and identify one equity advantage and one efficiency disadvantage of that approach.

(Total for Question 1 is 4 marks)

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

(Total for Question 2 is 15 marks)

3 Define a planned (command) economy in the context of how it answers the what/how/for whom questions.

(Total for Question 3 is 2 marks)

4 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 4 is 3 marks)

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

(Total for Question 5 is 3 marks)

6 State two advantages of a mixed economy compared with a purely planned economy, in the context of resource allocation.

(Total for Question 6 is 3 marks)

7 Classify each of the following real-world examples as best described by a market economy, a mixed economy, or a planned economy. Examples: A: US technology sector (private firms, little state ownership); B: UK National Health Service (publicly funded universal healthcare); C: Cuba's national agricultural sector in the 1980s (state ownership and central planning); D: Sweden's welfare-state model (extensive public services with private markets); E: North Korea's national industry today (near-total state control). For each example, write Market, Mixed or Planned.

(Total for Question 7 is 5 marks)

8 Explain how the profit motive in a market economy helps answer the 'what to produce' question, and give one limitation of relying on profit signals alone.

(Total for Question 8 is 4 marks)

Mark scheme · 1.28 Economic Systems: Market, Mixed and Planned Economies

Question 1

command economies allocate output to groups according to the plan or political priorities, e.g. basic needs, strategic industries or equal provision regardless of ability to pay	**M1**
equity advantage: can prioritise universal provision or redistribution to achieve greater equality or guaranteed access to essentials	**A1**
efficiency disadvantage: central allocation can ignore consumer preferences and price signals, causing misallocation where goods consumers value less are produced instead of those they want more	**M1**
gives rise to shortages, surpluses and wasted resources due to imperfect information and weak incentives	**A1**

Answer: Planners decide who gets output according to policy priorities, which can improve equity by guaranteeing basic needs but can reduce efficiency by ignoring consumer preferences and market signals, causing misallocation.

Question 2

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 3

an economy in which resource allocation decisions are made centrally by the state or planning authority rather than by markets	**B1**
state ownership of major resources and production targets set centrally to determine what, how and for whom to produce	**B1**

Answer: An economy where a central authority decides resource allocation and production, with state ownership and planning used to answer what, how and for whom to produce.

Question 4

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 5

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.

Question 6

advantage 1: greater efficiency and innovation from private sector involvement, as markets reward productive firms **B1**

advantage 2: ability of the government to correct market failures and provide public goods, improving equity and social welfare **B1**

brief development linking each advantage to resource allocation, e.g. markets allocate scarce resources via prices while government redistributes where markets fail **B1**

Answer: E.g. mixed economies combine market efficiency and innovation with government provision to correct market failures and improve equity, so resources can be allocated both efficiently and more fairly.

Question 7

A = Market, because the US tech sector is dominated by private firms responding to market prices and profit signals **B1**

B = Mixed, because the NHS is publicly funded and provided alongside private markets, characteristic of mixed economies **B1**

C = Planned, because Cuba's agricultural sector in the 1980s was centrally planned with state ownership and directives **B1**

D = Mixed, because Sweden combines robust welfare provision and public services with market-based private sectors **B1**

E = Planned, because North Korea's economy is centrally controlled with extensive state ownership **B1**

Answer: A Market; B Mixed; C Planned; D Mixed; E Planned.

Question 8

profit signals indicate consumer demand: higher prices and profitability for certain goods signal firms to produce more of those goods **M1**

this channels resources into producing goods and services consumers value, allowing decentralised adjustment without central direction **A1**

limitation: profit ignores externalities and public goods, so profitable production may harm social welfare or underprovide non-profitable but socially valuable goods **M1**

example or development: e.g. pollution-producing firms may be profitable yet impose costs on others, so profit signals alone can misallocate resources **A1**

Answer: Profit signals guide firms to produce goods consumers demand, directing resources efficiently; however, profit does not account for externalities or public goods, so relying on profit alone can lead to socially undesirable outcomes.