ECO.MIC25 Economic Systems: Market, Mixed and Planned Economies

Total Marks

AQA 7136 · Calculators not allowed · about 75 minutes

Name: _____ Date: ____ / ____ / _____

Answer all questions. Questions 12 and 11 require full sentences. Allow about 75 minutes. Write working where calculations or stepwise reasoning are required.

1 Define a free market economy as used in discussions of resource allocation and economic systems.

(Total for Question 1 is 2 marks)

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

(Total for Question 2 is 2 marks)

3 Define a mixed economy and state one reason governments adopt mixed systems.

(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 State two disadvantages of a command economy for answering the how and for whom questions of allocation.

(Total for Question 7 is 3 marks)

8 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 8 is 5 marks)

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9 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 9 is 4 marks)

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10 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 10 is 4 marks)

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11 Compare briefly the likely outcomes for productive efficiency and allocative efficiency in a market economy versus a planned economy. Give two comparative points and a short conclusion.

(Total for Question 11 is 6 marks)

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12 Discuss whether a mixed economy is always preferable to a purely free market economy for answering the what/how/for whom questions of resource allocation. In your answer consider efficiency, equity, incentives, information problems and practical constraints. You should reach a supported judgement.

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

(Total for Question 12 is 15 marks)

Mark scheme · ECO.MIC25 Economic Systems: Market, Mixed and Planned Economies

Question 1

- **B1** an economy where most resources are allocated through private markets via price signals and voluntary exchange, with limited government intervention
- **B1** private ownership of most factors of production and firms responding to profit incentives
- **Answer: An economy in which private markets and prices allocate resources, firms are privately owned and respond to profit incentives, with limited state intervention.**

Question 2

- **B1** 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
- **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 3

- **B1** an economy combining private markets and public sector provision, where both market mechanisms and government intervention shape resource allocation
- **B1** reason example: to correct market failures or provide public goods, or to pursue redistribution and social objectives
- **Answer: A mixed economy combines private markets with government provision and intervention; governments adopt it to correct market failures or provide public goods and redistribution.**

Question 4

- **B1** 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
- **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

- **M1** private property gives owners control over resources and the right to buy, sell or hire them, creating incentives to use resources productively
- **A1** the profit motive incentivises firms to supply goods and services consumers value, encouraging efficient production and innovation
- **B1** together these mechanisms direct investment and entrepreneurship towards activities that promise returns, thereby shaping resource allocation
- **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

- **B1** 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
- **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

- **B1** disadvantage 1: inefficient resource use and shortages or surpluses due to lack of price signals and inaccurate central information
- **B1** disadvantage 2: limited incentives for productivity and innovation, leading to low efficiency in production methods
- **B1** brief development linking to 'how' (production methods) and 'for whom' (political priorities may ignore consumer preferences)
- **Answer: E.g. command economies often misallocate resources because planners lack price information, causing shortages or surpluses, and they offer weak incentives for efficient production and innovation, reducing productive efficiency.**

Question 8

- **B1** 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
- **Answer: A Market; B Mixed; C Planned; D Mixed; E Planned.**

Question 9

- **M1** profit signals indicate consumer demand: higher prices and profitability for certain goods signal firms to produce more of those goods
- **A1** this channels resources into producing goods and services consumers value, allowing decentralised adjustment without central direction
- **M1** limitation: profit ignores externalities and public goods, so profitable production may harm social welfare or underprovide non-profitable but socially valuable goods
- **A1** example or development: e.g. pollution-producing firms may be profitable yet impose costs on others, so profit signals alone can misallocate resources
- **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.**

Question 10

- **M1** 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
- **A1** equity advantage: can prioritise universal provision or redistribution to achieve greater equality or guaranteed access to essentials
- **M1** 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
- **A1** gives rise to shortages, surpluses and wasted resources due to imperfect information and weak incentives
- **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 11

- **M1** point 1: productive efficiency, market: competitive pressures and profit incentives encourage firms to minimise costs and innovate, improving productive efficiency
- **A1** planned economy: lack of competitive pressure and weak incentives often leads to lower productive efficiency and slower innovation
- **M1** point 2: allocative efficiency, market: prices reflect marginal benefit and marginal cost so markets can achieve allocative efficiency where consumers' preferences determine output mix
- **A1** planned economy: without price signals, planners may misjudge consumer demand, producing goods that do not match preferences, reducing allocative efficiency
- **B1** second-order nuance: markets may still fail allocatively when externalities or public goods are present, requiring government intervention
- **A1** short conclusion: markets tend to outperform planned systems on productive and allocative efficiency, but market

Question 12

- **Level 1** (1-5): 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.
- **Level 2** (6-10): 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.
- **Level 3** (11-15): 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.
- **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