Worksheet 2 — 2.1 Economic systems

1. Match the key terms to their correct explanations. The first one has been completed for you.

- Market economy
- Private sector
- Price mechanism
- Mixed economy
- Public sector
- Market failure
- Public expenditure

- An economic system that combines the free market with government planning to allocate resources
- Sector of an economy in which all organizations are owned and controlled by the government
- The way in which changes in prices influence the spending decision of consumers and the production decision of producers, and therefore how resources are allocated to different uses
- Sector of an economy made up of private individuals and the firms they own
- Money spent on goods and services by public sector organizations
- An economic system in which private sector producers and consumers determine the allocation of resources
- These occur when free markets fail to produce goods and services that are worthwhile, and when the decisions of producers or consumers result in wasteful or harmful activities

2. The problem of resource allocation involves providing solutions to three key questions. What are these questions?

   i) ....

   ii) ....

   iii) ....

3. What is the main objective of most private sector firms? ....

4. Which of the following statements about the market economic system are TRUE or FALSE?

	True?	False?
A wide variety of goods and services will be produced to satisfy consumers' wants		
Firms will allocate resources to the production of the most profitable goods and services		
There will always be full employment of resources		
Firms have an incentive to keep their costs of production as low as possible		
Consumers will only get what they want depending on their willingness and ability to pay		
Firms will supply products consumers want even if they do not make a profit		
Firms will supply harmful goods and services if it is profitable to do so		
People with the least ability to pay may be unable to obtain the goods and services they need		
Producers are only interested in profit and may fail to take account of the potentially harmful impact of their activities on other people, producers and the environment		

5. In a market economy, price signals guide the decisions of producers and consumers. The following events describe what is likely to happen in a market economy following an increase in consumer demand for flat-screen televisions. However, the events described are in the wrong order. Place them in their most likely order by assigning each event a number from 1 to 6. The first event in the correct sequence has been identified for you.

Stocks of flat-screen televisions held by retailers and television manufacturers are used up

As the profitability of flat-screen televisions continues to rise, new producers allocate resources to their production

As their prices rise, the production of flat-screen televisions becomes more profitable

1 Consumers buy more flat-screen televisions. Sales of other televisions fall

Existing television manufacturers allocate additional resources to the production of flat-screen televisions

To ration the available supply of flat-screen televisions, producers will tend to increase their prices

6. The rise in demand for flat-screen televisions has been at the expense of sales of other types of television. What is likely to happen following the fall in demand for other televisions? Once again, place the sequence of events below in their correct order.

As the profitability of other televisions falls, producers reduce their production

Stocks of all other types of television rise as sales fall. Producers reduce their prices to sell off their stocks

1 Sales of other types of televisions fall as consumer demand rises for flat-screen televisions

Resources are moved to the production of flat-screen televisions and away from the production of other types of television

As their prices fall, the production of other televisions becomes less profitable

7. Suggest actions a government could take to try to correct the following market failures.

Market failure	Possible government intervention
Poor and vulnerable people will be unable to afford the goods and services they need	
Harmful products, such as guns and dangerous drugs, may be supplied	
Powerful firms may mislead consumers and restrict competition to force up prices	
People may lose their jobs if it is not profitable to employ them	
Production may harm the natural environment	