

Big Question: What makes markets effective? Below you will find some arguments for the market (mixed) system system.

15/09/2016

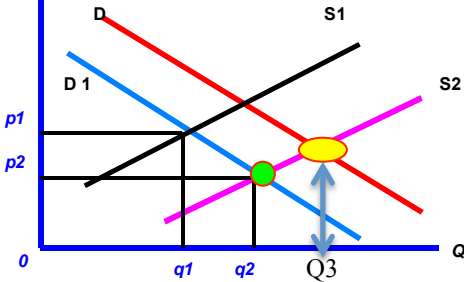
Advantages of the market system

Syllabus: 1.1 Price system as an allocative system (price based rationing). What are the advantages of price mechanism?

Webnote 109

1. Efficiency: better resource allocation

DEMAND + SUPPLY CURVES



1. Efficiency. On the demand side the price system improves the allocation of scarce resources. As demand for a good increases (See d1 to d)

- the market responds by putting more resources- land, labour and capital- into the production of that good and market equilibrium moves to Q3.

2. On the supply side the Firm must try to seek the low cost production alternative assuming that there are competitors offering substitute goods.

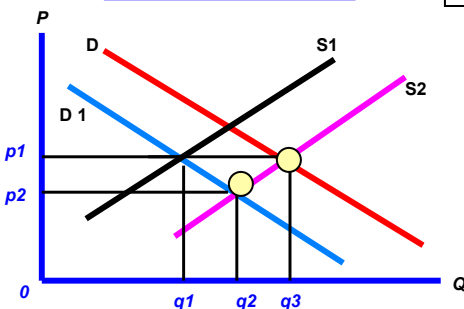
- see p2q2 or a similar alternative This may result in lower average unit costs and therefore more efficiency. The supply function (Webnote 102) highlights this when better technology allows firms to increase output to q2 due to better quality capital thereby increasing productivity – productivity=output per worker/maching per hour.

Efficiency:

Draw a PPF to show how an economy using a market system may have a higher level of efficiency than a command economy. (draw the diagram on this webnote).

2. 'consumer sovereignty' in the syllabus this is termed as 'consumer surplus'.

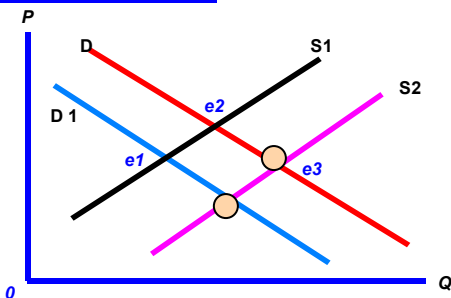
DEMAND + SUPPLY CURVES



2. Individual Freedom is improved. This is sometimes called 'consumer sovereignty' (consumer surplus) + represents consumer power in the market. In the market the consumer influences 'what?' is produced. The decision to purchase belongs to the consumer. Producers respond to this power. This concept works well in a competitive market. See q3 in diagram opposite.

3. economic growth

DEMAND + SUPPLY CURVES



I. The price system leads to economic growth i.e. an increase in the output of goods and services. If efficiency is improved by means of increases in productivity for each unit of a factor of production then growth occurs. The key factor here is profit (and loss). Resources follow profits. Profits attract competition. Consumers benefit from better quality products.

II. On the supply side the Firm must try to seek the low cost production alternative assuming that there are competitors offering substitute goods q2 or increase the output at current prices q3

III. Profit = TR – TC

IV. See e1 - e2. Draw change in TR. What do you notice? See also webnote 108. Higher revenues (higher profits)

V. In essence the price system attempts to answer the 3 key economic questions:

what? how? for whom ?

Task 1

Research Task option

Webnote 109

Group based task:

Study webnotes: 109 + 111 + 112**Task: Evaluate the market system.****(Provide real world examples to make your argument.)**

1. Evaluate: advantages vs disadvantages
2. Evaluate: prioritize
3. Evaluate: long run vs short run
4. Evaluate: prioritize

Guidelines for research:

Present to the class one or more of the following (based on 3 groups having max 15 minutes)

1. animation/ cartoon that passes a critical comment on the market system
 2. video clip (blinkx.com or other news source) highlighting a real world story about the market system
 3. news article – economist, business week or other suitable source
 4. podcast – radio report or other medium to answer the research question.
 5. Powerpoint (maybe containing a combination of the above approaches)
7. Guidelines: you must also do...
- Information must be presented to the class using the whiteboard
 - A handout must be given to each student summarizing your presentation and allowing the reader to have printed real world examples that will assist them in evaluating the market system. I would like this handout to be maximum 2 pages of A4 photocopied back to back

Task 2: Exam Question

Theme: Market is best allocative system/
intervention to regulate the market

Exam Question: SL(and HL) 2005 May paper 1 Q 4:

4:

4. (a) Explain the main characteristics of a market economy.

(b) Evaluate the proposition that economic development is best achieved through the market system.

Note: before answering this question read webnotes 231 and 232.

Answer

Reduce textbox to see answer to question 4b