

Best answers in economics

1. **Explain** how changes in price work to reallocate resources in a market. [10 marks] - M15/3/ECONO/HP1/ENG/TZ2/XX

Time allowed 18 (16 writing + 2 planning)

Best Answers in Economics:

1. Define +/- or explain key economic terms
2. Diagrams used expertly connecting text of answer to diagram
3. Use examples. Diagrams provide examples but try and provide real world examples where appropriate. Collect examples over time in your note taking. Try and use your IA or even your extended essay if relevant.
4. Answer. Stay focused on the question.
5. Paragraphs. Separate your answer into clear paragraphs. Each paragraph connects with the question.

IB answer: M15 HP 1 Q1(a)

Section A

Microeconomics

1. (a) Explain how changes in price work to reallocate resources in a market.

[10]

Answers **may** include:

- definition of reallocation of resources
- diagrams to show how changes in price alter the equilibrium quantity and therefore reallocate resources
- theory to explain the signalling and incentive functions of the price mechanism
- examples of markets where price change has led to a reallocation of resources, such as through government intervention.

P1: introduction

- define key terms. These include **resource (re)allocation** and **market**. Focus on resource allocation as the placing in or out of factors of production into markets to produce quantities of goods and services. Highlight that the price mechanism allocates resources.
- Address the question. Make a statement about the title e.g. the market and the price mechanism is key to allocation of resources

P2: analysis – using diagram to build answer

- Use a specific market example e.g. rice.
- Draw supply and demand to show movements/shifts in supply and demand. **Draw and use expertly. Use a ruler and refer to exact points/lines on the graph. Focus on q_1 – q_m in Fig. 1 Remember resource allocation is explained via the X-axis. You can also mention surplus as consumer surplus increases from abc to ade in Fig 2.**
- explain that these changes adjust price and therefore send signals the market to adjust the quantities on the X-axis and more or less rice is produced. If more is produced then more factors of production are required and therefore resource allocation takes place. The opposite occurs when the market for rice contracts/becomes smaller.
- Remember there is always an incentive for consumers and producers and this is easily referred to (or also shown in diagram) in terms of consumer/producer surplus. As markets grow then the community/social surplus increases.

P3: conclusion

- Make a brief closing statement about the importance of the market as a key resource allocation system in a mixed market economy.

Fig 1.

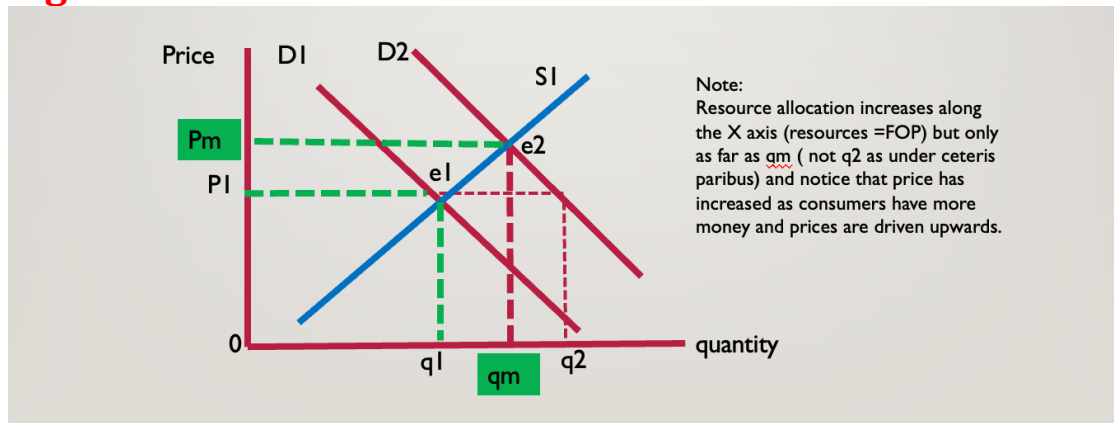


Fig 2

