Issued On:		Past Paper Questions [PPQs]	**16** [40 – 56]
Deadline:		Model Questions [MQs]	**3** [15 – 18]
Marks : Time	**1 mark = 1 ½ Mnt**	Units - Essentials Covered	**Unit 1,2**

Structured Essay Type Question Answers:

Part - [A] Economic Systems [Unit: 1]

[01] 2012 A/Ls (ECON – II): Q1 (V)

Outline the **differences** between command and market economies **[04 marks]**
2016 A/Ls (ECON-II): Q1 (II)

In what ways does a free market economy **differ** from a centrally-planned economy?

[04 marks]

[01]

	Free Market Economy	Centrally Planned Economy
1	Private Ownership of Production Resources	State/Public Ownership of Production Resources (Property Resources)
2	Private Entrepreneurship	Public Entrepreneurship
3	Price Mechanism	Central Planning Mechanism
4	All market participants, make decision incentivised by Self-interest	All main decisions such as resource allocation, output composition, output distribution etc, are made by a central planning committee, based on social (common) welfare
5	Producers' engage in intense competition, in order maximise profits	Lack of competition [State Monopoly]
6	Highly limited government role (laissez-Faire government)	Government is heavily involved and practices intervention in production, consumption, exchange, and all aspects of the economy
7	Relatively efficient resource utilization (productive efficiency)	Relative inefficient in resources utilisation: wastefulness, over or under production (productive inefficiency)
8	What to produce (what output) is determined by consumer needs	What to produce (what output) is determined based on basic needs

9	High degree of Economic freedom	Lack of economic freedom and consumer sovereignty
10	Macroeconomic instability	Macroeconomic stability
11	Inequalities in income and wealth distribution	Equality (Fairness) in income and wealth distribution
12	Dominant material incentives	Dominant coercive incentives, driven by power and authority

[01 mark each, Maximum 04 marks]

[02] 2013 A/Ls (ECON – II): Q1 (III)

Contrast how a market economy and a command economy try to cope with the problem of scarcity

[04 marks]

A **market economic system** deals with the problem scarcity, by formulating a mechanism to allocate limited resources, as described below:

In a market economic system is based on the **fundamental characteristics** of **private property ownership**, directing the economy through the coordination done through **markets** and **price mechanism.**

In this system all economic agents participating in market activities work towards optimising their **self-interest**. Thus all individuals and firms (institutions) engage in consumption and production in a manner that **maximises** their **satisfaction** or **profits.**

Production of goods and services, and supplying (offering) factor based services is based on each **individual's preferences** and **abilities.** Parties purchasing and supplying, goods and production factors, tend to **compete independently**, while the **economic decision making** process is **highly decentralised.**

The **government's role** in a market economic system is **limited** towards **protecting private property rights** and creating a **conductive environment** for the **efficient** functioning of **markets.**

[02 marks]

A **command economic system** deals with the problem scarcity, by formulating a mechanism to allocate limited resources, as described below:

In a command economic system **all property resources** are **owned** by the **government** and the economic decision making process is conducted based on a **centralised economic plan**. All **key economic decisions** pertaining to resource utilization, output composition, output distribution and organizing production activities are made by a **central planning committee or council** appointed by the government.

All **production organizations** are **owned** and managed by the **government**, and such institutions engage in production based on **government directives** (commands), i.e. **public sector entrepreneurship.**

The **central planning committee** shall determine the **production targets** of each production organization and the **amount resources allocated** to attain such targets.

The **composition** of **output** in terms of **capital goods** and **consumer goods**, and the manner in which **capital goods** are **distributed** among **different industries**, are decided by the **central planning committee** based on **long-term economic priorities.**

[02 marks] [04 marks]

Essentially the expectation is for your answer to contain the terms/concepts in **'bold'** lettering, used in a meaningful and technically correct manner. **Remember,** it's not quantity (word count), but rather quality is what matters.

Alternative Answer Approach

Key Note: The first approach above was based on describing '**key functional characteristics'** of each economic system, as mechanism of allocating scarce resources.

This alternative answer approach is based on the manner in which each economic system solves '**basic economic problems'** (i.e. functions of economic systems) which are created due to scarcity of resources.

Market Economic System:

In a market economic system the basic economic problems of what to produce, how to produce and whom to produce, are solved based on the **'Price Mechanism'.**

Good and services which are able to generate **profits** upon production will allocated with production factors, whiles goods unable to turn a profit will not be produced. The production decisions will be made based on **price signals/information** received mainly from the **product market,** in addition to that of factor market.

Private sector enterprises operating within a market economy, choose the **most efficient** (minimise cost, thus maximise profits) **production techniques**, based on existing technology and **factor market price signals.**

Private **income** (or income distribution) is determined based on the **volume** of **productive resources** held by each individual and the **price** decided in the **factor market** for such factors. Factor prices are decided based on demand and supply for factors in the factor market.

[02 marks]

Command Economic System:

In a command economy, the process of resource allocation is conducted based on the **commands and directions** issued by a **centralised planning committee**. In this context the planning authority shall decide the price of goods, while consumers' decide how much each good to purchase at the controlled price.

The **central planning committee** shall determine the **production techniques or methods**, while attempting balance inputs and output in a socially beneficial manner.

The manner in which **output and income** is to be **distributed** is fundamentally determined by the **planning authority**. The authority will **determine minimum wage** rates and **price of goods** in such manner to **minimise disparities in income distribution**.

★ **[02 marks] [04 marks]**

[03] 2011 A/Ls (ECON – II): Q1 (II)

How different types of economic systems answer the question what goods and services will be produced

[03 marks]

A **market economic systems** provides solutions to the problem of what to produce in which quantities, through the **price mechanism.**

Private sector producers operating within a free market economy, shall allocate limited resources towards the production of the **most profitable goods**, identified based on **price signals, mainly** issued within **product markets.**

Consumers identify the goods which provide the greatest **value for money or optimum utility** (or satisfaction) for the price paid, based on **price signals** issued in **product markets.**

[01 mark]

In a **command economy** the problem of what to produce, in what quantity is solved based on the directions and commands issued by a **centralised planning authority**.

[01 mark]

In **mixed economic system** the problem of what to produce, in which quantity is solved based on a **mixed mechanism**, combining **price signals** (price mechanism) and commands, directives of the government (**government market interventions**).

[01 mark]

In a **traditional economic system** this problem is solved mainly based on **traditions, customs and cultural norms.** In such a system the method of solving basic economic problems is passed on from one generation to another, and the same practices continue without any change.

★ **[01 mark] [Total 04 marks]**

[04] 2010 A/Ls (ECON – I - II): Q1 (V)

State the **differences** between a command economy and a market economy in the way the fundamental economic problems are answered

[06 marks]

What to produce:

In a **command economy** the problem of what to produce, in what quantity is solved based on the **directions** and **commands** issued by a **centralised planning authority**. In this context the planning authority shall decide the price of goods, while consumers' decide how much each good to purchase out of what is supplied, at the controlled price.

[01 mark]

In a **market system** good and services which are able to **generate profits** upon production will allocated with production factors, whiles goods unable to turn a profit will not be produced. The production decisions will be made based on **price signals/information** received mainly from the **product market,** in addition to that of factor market.

[01 mark]

How to produce:

The **central planning committee** shall determine the **production techniques or methods**, while attempting balance inputs and output in a socially beneficial manner. The information required to prepare such plans are sourced through a **comprehensive input – output analysis.**

[01 mark]

Private sector enterprises operating within a **market economy**, choose the **most efficient** (minimise cost, thus maximise profits) **production techniques**, based on existing technology and **factor market price signals** (relative factor prices).

[01 mark]

Whom to produce:

In a **command economy** the manner in which **output and income** is to be **distributed** is fundamentally determined by the **planning authority**. The authority will **determine minimum wage** rates and **price of goods** in such manner to **minimise disparities in income distribution**.

[01 mark]

In a **market economy** private **income** (or income distribution) is determined based on the **volume** of **productive resources** held by each individual and the **price** decided in the **factor market** for such factors. Factor prices are decided based on demand and supply for factors in the factor market.

★ **[01 mark] [Total 06 marks]**

★ Essentially the expectation is for your answer to contain the terms/concepts in **'bold'** lettering, used in a meaningful and technically correct manner. **Remember,** it's not quantity (word count), but rather quality is what matters.

[05] 2017 A/Ls (ECON – II): Q1 (V)

State the disadvantages of a command economy

[04 marks]

- Social preferences are disregarded
- Lack of consumer sovereignty and freedom of choice
- Lack of incentives to be efficient and workhand, as private property and resource ownership does not exist.
- Lack of incentives towards developing innovations
- Lack of competition leading to inefficiency
- The tendency for back markets to emerge, due to government price controls
- Inefficiencies created due to problems in coordinating and managing economic activities (inefficiencies in resource allocation: over and under production)
- High degree of bureaucracy
- State monopoly
- Relative stagnant rates of economic growth

[01 mark each, maximum 04 marks]

[06] 2009 A/Ls (ECON – I - II): Q2 (IV)

What are the criteria to be used in the evaluation of performance of an economic system?

[04 marks]

- Full employment (of resources)
- Economic efficiency
- Economic growth
- Price stability and economic stability
- External stability
- Fair distribution of income
- Quality of the environment
- Economic freedom

[01 mark each, maximum 04 marks]

Part - [B] Market Economics [Unit: 2, Part 1]

[01] 2010 A/Ls (ECON- I- II): Q3 (I)

Distinguish between **'Wants'** and **'Demand'**

[02 marks]

Wants represent the **unlimited willingness or desire** within individuals to consume goods and services to fulfil different needs. Due to the **limited nature of resources** or **means,** an individual can only attain or fulfil a **limited number** of such **unlimited wants.**

[01 mark]

Demand represents the **selected unlimited wants** which individuals have made a **decision to satisfy,** supported by the required **purchasing power.** The quantity demanded represents quantities of a certain good a consumer (s) are planning to purchase at a given price. Accordingly 'demand' implies or consists of three main factors:

- The consumer **wants** or desires the given product
- The consumer has the **ability to purchase** the given product
- The consumer have **planned** to purchase the given good or service

[01 mark] [Total of 02 marks]

[02] 2011 A/Ls (ECON –II): Q2 (I)

List the main **factors** that **determine** the **consumer demand** for a good

[04 marks]

- The product's own **price** (Price of the product under consideration)
- The **price** of **related products** (price of substitute and complementary goods)
- **Income**
- **Taste** and preferences
- **Number** of **consumers** or buyers
- Other relevant factors (social and demographic factors, natural, man-made..)

[01 mark each, total 04 marks]

[03] 2010 A/Ls (ECON – I - II): Q3 (II)

Explain the **'Law of demand'** through the income and substitution effect

[04 marks]

Substitution effect of a price change is the tendency of consumers to change quantity demanded of a given good as a result of its relative price changing.

When all other factors affecting demand of a product are held constant *(specially price of substitute goods and consumers' nominal income)*, if only the price of the product concerned increases, consumers "Substitute away" from the product concerned (i.e. decrease quantity demanded), since it becomes relatively expensive and if price decreases, consumers shall 'Substitute in favour' of the product concerned, since it becomes relatively cheap.

Income effect of a price change is the change in quantity demanded of a product because the change in its price has the effect of changing a consumer's real income.

When all other factors affecting demand of a normal good are held constant *(specially consumers money income and price of related products)*, if the price of the product concerned increases, the quantity demanded for the product is decreased, since the consumers' real income decreases *(i.e. consumers' become relatively poor),* and if price falls, consumers shall increase their quantity demand, since consumers' real income increases (i.e. consumers' become relatively richer).

[02 marks each, Total 04 marks]
[Describing **either** an **increase** or **decrease** in price is sufficient]

[04] 2011 A/Ls (ECON – II): Q1 (IV)

Distinguish between a **'Normal Good', 'Inferior Good'** and a **'Giffen Good'**

[03 marks]

A normal good refers to any good for which the consumer <u>income</u> and <u>quantity demanded</u> relationship tends to be <u>positive or direct</u>.

[01 mark]

<u>Alternative Answer</u>

*Normal goods are products where when consumer income increases the quantity demanded of such goods shall increase, and if income decreases the quantity demanded tends to decrease. These goods represent a **positive income elasticity of demand coefficient.***

An inferior good refers to any product for which the consumer <u>income</u> and <u>quantity demanded</u> relationship tends to be <u>negative or indirect.</u>

[01 mark]

Alternative Answer

Inferior goods are products where when consumer income increases the quantity demanded of such goods shall decreases, and if income decreases the quantity demanded tends to increase. These goods represent a ***negative income elasticity of demand coefficient.***

A giffen good refers to any product for which the price and quantity demanded relationship tends to be positive or direct.

[01 mark]

Alternative Answer

Giffen goods are products where, when price increases the quantity demanded of such goods shall increase, and if price decreases the quantity demanded tends to decrease. These goods represent a ***positive price elasticity of demand coefficient.***

If the negative substitution effect caused by a change in the price of a given product is overweighed by the negative income effect of the price change (i.e. income effect is negative or works against the law of demand), the said product is a giffen good.

[Total 03 marks]

ADDITIONAL REFERENCING

Normal Goods (Product Profile)

- ✓ The relationship between a change in consumer income and quantity demanded is direct or positive
- ✓ The income elasticity of demand coefficient is positive [can have variants in the form of essentials and luxuries]
- ✓ The relationship between a change in price and quantity demanded is negative (the overall price effect is positive, i.e. both the substitution and income effects equal in strength, and in support of law of demand)
- ✓ The demand curve is downward sloping, and price elasticity of demand coefficient is negative

Inferior Goods (Product Profile)

- ✓ The relationship between a change in consumer income and quantity demanded is indirect or negative
- ✓ The income elasticity of demand coefficient is negative
- ✓ The relationship between a change in price and quantity demanded is negative (the overall price effect is in support of law of demand, i.e. since the substitution effect overpowers the income effects)
- ✓ The demand curve is downward sloping, and price elasticity of demand coefficient is negative

Giffen Goods (Product Profile)

- ✓ **The relationship between a change in price and quantity demanded is positive** (the overall price effect works against the law of demand, i.e. since the income effect, which is against of law of demand overpowers the substitution effects)
- ✓ **The demand curve is upward sloping, and price elasticity of demand coefficient is positive**
- ✓ The relationship between a change in consumer income and quantity demanded is indirect or negative
- ✓ The income elasticity of demand coefficient is negative

[05] 2018 A/Ls (ECON – II): Q1 (IV)

Distinguish between **'Individual Demand Curve'** and **'Market Demand Curve'**

[02 marks]

An individual demand curve is a simple diagram or graph which represents the quantities of a given product, **an individual consumer** operating in the market is expecting and able to purchase, at alternative prices which may exist in the market, when **other factors affecting demand remain constant** during a **specific period of time**.

[01 mark]

A market demand curve is a diagram or graph which represents the sum of all the quantities of a given product, **all consumers** operating in the market are willing and ready to purchase, at alternative prices which may exist in the market, when **other factors affecting demand remain constant** during a **specific period of time.**

Alternative Answer:

The market demand curve is the horizontal addition of all the individual demand curves, and it is derived by adding the quantities of the product demanded by each individual consumer at each given price.

[01 mark, total 02 marks]

[06] Model Question

Distinguish between the following pairs of concepts, relating to the demand analysis.

(I) **Demand** and **Quantity demanded**

(II) **Theory of Demand** and **Law of Demand**

[04 marks each]

(I)

Demand refers to the **overall relationship between** the **quantity demanded** and **price** of a certain product when all other factors affecting demand, apart from price of the own product is held constant, **during a given period of time.** Quantity demanded essentially refers to the amount of a good that buyers are willing and able to purchase.

[02 marks]

In a more technical sense this a specific price: quantity combination, which indicates **one point** of a certain demand schedule or curve, i.e., the quantity demanded at a **certain price**, while **demand** is represented by the **entire demand curve**. Quantity demanded is generally used to **measure** the demand for a certain product.

[02 marks] [Total 04 marks]

(II)

The theory of demand refers to a **broad concept** which analyses and explains the **change in demand** of a given product in relation to a **change in any determinant affecting the demand** of the product.

[01 mark]

In simple terms this is the **functional relationship** between the market demand for a given product and the factors affecting market demand (may also be referred to as market demand function).

[01 mark]

The law of demand refers to the **indirect or inverse relationship** between **price** and **quantity demanded**, while **factors other than price** (non-price) affecting demand of the product are **held constant**, at a given **point of time.**

[01 mark]

The standard **law of demand** pertaining to a normal good is **explained and justified** based on the **'price effect',** which is combination of two sub effects namely, **substitution effect** and **income effect** of change in price.

[01 mark] [Total 04 marks]

[07] 2015 A/Ls (ECON-II): Q2 (I)

What **factors** are **held constant** in drawing a **market supply curve?**

2013 A/Ls (ECON-II): Q2 (II)

Name four major **non-price** determinants of supply for an industrial product

[04 marks]

- Price of related products (price of production substitutes)
- Price of the production factors used to produce the product (Cost of production)
- Expected future price
- Technology
- Government policies: Taxes and subsidies
- Number of suppliers or producers
- Weather conditions and other relevant factors

[01 mark each, total 04 marks]

Key: if **price** of the product (or **product's own price**) is mentioned, no (zero) marks will be allocated for the entire question.

[08] 2008 A/Ls (ECON – I - II): Q3 (III)

(A) **Explain** the **'Law of Supply'** **[02 marks]**

(B) **Why** does the **supply curve slope upwards?** **[03 marks]**

2017 A/Ls (ECON-II): Q2 (III)

Define the **'Law of Supply'** and **explain** the **reasons** for this **[04 marks]**

[A]

Law of supply refers to the direct or positive relationship between a change in the price of a given product and its quantity supplied, when non price factors affecting the supply of the product are held constant, at a given point of time.

<u>Alternatively</u>

Law of supply is where, when all other factors affecting supply of a product are given, when the price of the product increases quantity supplied increasing and when price decreases quantity supplied decreasing.

[02 marks]

[B] **Reasons for the law of supply [Why the supply curve slopes upwards from left to right]:**

- When the production capacity and price of inputs are held constant (i.e. in the short run of production), an increase in the number of units produced by unit, the marginal cost increases.

- The essential increase in opportunity cost caused by the increase in supply by one additional unit is termed as the 'Law of increasing (marginal) opportunity cost'

- Accordingly an increase in supply (even by one additional unit), is only forthcoming or expected, if the price of the given product increases and increases enough to cover the increase in the marginal opportunity cost.

- An increase in price of the product, while non price factors (factors other than the price of the given product) affecting supply are held constant, essentially increases the producer's ability and willingness to supply more of the product by a rational producers.

[03 to 04 marks]

[09] Model Question

Explain briefly what is mean by **'Price of related products'** in the context of supply**, and** how it **affects** the **market supply** of a product

[04 marks]

In supply analysis the term price of related products refers to '**Production Substitutes** or Goods Substitutable in Production'.

Production substitutes refer to **two goods** which **can be produced by employing similar resources** and **basic production technology** (i.e. goods with high mobility of resources of among them).

In addition goods with perfect mobility of resources or production subsidies, the price of goods which are **jointly produced (byproducts)** can also be considered under **price of related products**.

The relationship between a change in the price of a related product (s) and the supply of the product under consideration tends to be **indirect or negative.**

[01 mark each, total 04 marks]

[10] Model Question

Briefly distinguish between the following pairs of concepts, relating to the supply analysis.

(I) Supply and Quantity supplied
(II) Institutional Supply and Market Supply
(II) Theory of Supply and Law of Supply

[03 marks each]

(I) Supply refers to the **overall relationship between** the **quantity supplied** and **price** of a certain product when all other factors affecting supply, apart from price of the own product is held constant, **during a given period of time.** Quantity supplied essentially refers to the amount of a good that firms are willing and able to sell.

[1 ½ marks]

In a more technical sense this a specific price: quantity combination, which indicates **one point** of a certain supply schedule or curve, i.e., the quantity supplied at a **certain price**, while **supply** is represented by the **entire supply curve**. Quantity supplied is generally used to **measure** the supply for a certain product.

[1 ½ marks] [Total 03 marks]

(II) Institutional supply is the quantities of a given product, **an individual firm or producer** operating in the market is expecting and able to release to the market, at alternative prices which may exist in the market, when **other factors affecting supply remain constant** during a **specific period of time**.

[1 ½ marks]

Market supply is the sum of all the quantities of a given product, **all firms or producers** operating in the market are willing and ready to supply, at alternative prices which may exist in the market, when **other factors affecting supply remain constant** during a **specific period of time.**

[1 ½ marks, total 03 marks]

(III)

The theory of supply refers to a **broad concept** which analyses and explains the **change in supply** of a given product in relation to a **change in any determinant affecting the supply** of the product.

[01 mark]

In simple terms this is the **functional relationship** between the market supply for a given product and the factors affecting market supply (may also be referred to as market supply function).

[½ mark]

The law of supply refers to the **direct or positive relationship** between **price** and **quantity supplied**, while **factors other than price** (non-price) affecting supply of the product are **held constant**, at a given **point of time.**

[01 mark]

The standard **law of supply** pertaining to a normal good is **explained and justified** based on the law of increasing marginal opportunity cost (law of the upwards sloping marginal cost curve).

[½ mark] [Total 03 marks]

Answer Grid [MCQs]

Question	Answer	Question	Answer
01	1	11	2
02	5	12	3
03	5	13	5
04	1	14	2
05	2	15	4
06	5	16	3
07	3	17	2
08	5	18	3
09	1	19	5
10	4	20	4

Answer Grid [OTQs]

Question	Answer	Question	Answer
01	True	16	True
02	True	17	False
03	True	18	True
04	False	19	True
05	True	20	True
06	False	21	True
07	False	22	False
08	False	23	True
09	False	24	True
10	True	25	False
11	False		
12	True		
13	False		
14	True		
15	False		

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