THEORY PROGRAM **FNR – SUGGESTED ANSWERS**	FNR: **05** **2024 A/L**	**Discussed on:**

ATTEMPT. PRACTICE. LEARN. IMPROVE. ACHIEVE.

Part – [A]

Question	Answer	Question	Answer
01		**11**	
02		**12**	
03		**13**	
04		**14**	
05		**15**	
06		**16**	
07		**17**	
08		**18**	
09		**19**	
10		**20**	

Part – [B]

Question [01]

(A) **Name** 'five' features which exist within any society, which lead to the variety of economic systems

1) The Nature of 'Property (Resource) Ownership' and Rights
2) The Nature of the 'Resource Allocation Mechanism' (or Decision Coordination Mechanism or Method of Solving Basic Economic Problems)
3) The Nature of the 'Incentives Structure'
4) The Nature of 'Social Safety or Protection Networks' and 'Income Redistribution'
5) The Nature of 'Politics' and 'Ideologies'

(01 mark each) (Total 05 marks)

(B) **List** the 'three' basic economic systems which have evolved to answer the three fundamental questions faced by all economic systems

1) Traditional Economic System
2) Free or Liberal 'Market Economic System
3) Command Economic System (Centrally Planned Economic System)

(01 mark each) (Total 03 marks)

Mentioning Mixed System is acceptable.

No marks will be allocated for mentioning Capitalist, or Socialist systems

<u>Question [02]</u>

State the Salient Characteristics of the following economic systems:

(A) Liberal Market Economic System
(B) Command Economic System
(C) Mixed Economic System

(A) **Characteristics** of a **Liberal Market Economic System**

- Private property ownership
- The existence of Private Enterprises
- The decision-making is Decentralized, free enterprise and freedom of choice.
- Resource allocation is based on Price Mechanism
- Decisions are made based on the incentive of Self-interest.
- Consumer sovereignty
- High degree of competition, among producers to maximize profits.
- Limited or Laissez Faire government involvement in the process of resource allocation

(01 mark each) (Total 04 marks)

(B) **Characteristics** of a **Command Economic System**

- Public –sector (state) property ownership
- The existence of Public Enterprises
- The decision-making process is Centralized.
- Resource allocation is based on Planning Mechanism
- Decisions are made based on the incentive of Social Welfare (Common Benefit or Social Equity)
- Limited or no: competition (state monopolies), freedom of choice, freedom of enterprise among producers to maximize profits.
- Limited role of private sector (private sector activities are based on government commands)

(01 mark each) (Total 04 marks)

(C) **Characteristics** of a **Mixed Economic Systems**

- The economy comprises of four main economic operators:
  - Consumers - Producers
  - Factor owners - Government
- Consumers, producers, and resource owners represent the private sector and are motivated by the incentive of self-interest.
- The public sector receives motivation through the incentive of social wellbeing or benefit.
- The private sector and the public sector shall independently own production resources.
- Economic activities of the private sector are directed by the price mechanism within competitive markets.
- The public sector makes resource allocation decisions by way of a planning mechanism.
- There is a high degree of freedom received by consumers with regards to goods and services produced by the private sector, while there will be critical and decisive government market intervention, as required by the public and if the government decides its appropriate.

(01 mark each) (Total 04 marks)

Question [03]

(A) What is meant by 'Consumer Surplus' **(02 marks)**

Consumer surplus is the **aggregate value** (total value) of the **positive differences** between the **prices** a **consumer** is **willing** and ready **to pay** (i.e., **marginal utility**) and the **actual price** paid for the equilibrium **quantity** of good **exchanged in the market.**

Conceptually **consumer surplus** is the **total utility exceeding total consumer expenditure or outlay.**

In terms of a market demand curve diagram this is the money value of the area below or under the demand curve, above the price line paid by consumers, and up to the quantity purchased.

$$\text{Consumer Surplus} = \frac{[\text{Maximum Demand Price} - \text{Pm}] \times \text{Qp}}{2}$$

$$\textbf{OR} \quad = [(\text{Maximum Demand Price} - \text{Pm}) \times \text{Qp}] \times ½$$

(Pm) – Market Price
(Qp) – Quantity Purchased **(02 marks)**

(B) Suppose the market demand equation for a given product is **Qd = 600 – 20P**, estimate the following at the price of Rs. 15.00 per unit.

(1) Total Consumer Surplus **(02 marks)**
(2) Price Elasticity of Demand **(01 mark)**

Question [04]

(A) What is meant by 'Producer Surplus' **(02 marks)**

This is the **aggregate value** (total value) of the **positive differences** between the **minimum prices**, i.e., **marginal cost** a producer is expecting for a product and the actual price received in the market at the equilibrium level of exchange.

Conceptually **producer surplus** is **total revenue exceeding the total variable cost of production.**

In terms of a market supply curve diagram this is the money value of the area above the supply curve, below the price line received by producers, and up to the quantity sold.

$$\text{Consumer Surplus} = \frac{[\text{Pm} - \text{Minimum Supply Price}] \times \text{Qs}}{2} \quad \textbf{OR}$$

$$= [(\text{Pm} - \text{Minimum Supply Price}) \times \text{Qs}] \times \tfrac{1}{2}$$

(Pm) – Market Price
(Qs) – Quantity Sold **(02 marks)**

(B) Suppose the market supply equation for a given product is **Qs = - 300 + 20P**, estimate the following at the price of Rs. 30.00 per unit.

(1) Total Producer Surplus **(02 marks)**

(2) Price Elasticity of Supply **(01 mark)**