

Basic Economic Concepts — Free Preview Free Response Questions Set 2 (10 pts)

1. Bobland is considering to change its economic system. (total: 10 pts)
 - a. Compare command, market, and mixed economies, focusing on how each answers (3 pts):
 - i. What to produce?
 - ii. How to produce?
 - iii. For whom to produce?
 - b. Identify which economic system is most likely to have strong incentives for efficiency and explain why. (3 pts)
 - c. Give one advantage and one disadvantage of a command economy. (2 pts)
 - d. Explain how a mixed economy like the United States combines elements of both market and command systems. (2 pts)

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1. Economic Systems (10 pts)

a. Compare systems

- 1 pt: explaining what to produce (command: government decides, market: consumer demand and profit motive decide, mixed: both government and market influence decisions)
- 1 pt: explaining how to produce (command: government directs methods and resources, market: firms choose lowest-cost methods, mixed: private production with government regulation)
- 1 pt: explaining for whom to produce (Command: government distributes output, market: based on income and willingness to pay, mixed: market distribution with government redistribution)

b. Strongest incentives

- 1 pt: correctly identifies market economy
- 1 pt: mentioning profit motive or competition
- 1 pt: explaining link to efficiency

c. Advantage and disadvantages

- 1 pt: one valid advantage (income equality, ability to mobilize resources quickly)
- 1 pt: one valid disadvantage (lack of incentives, inefficiency, limited consumer choice)

d. Mixed economy

- 1 pt: identifying market-based element (private ownership, prices determined by supply and demand)
- 1 pt: Identifying government / command element (taxes, public goods, regulations, government programs)