

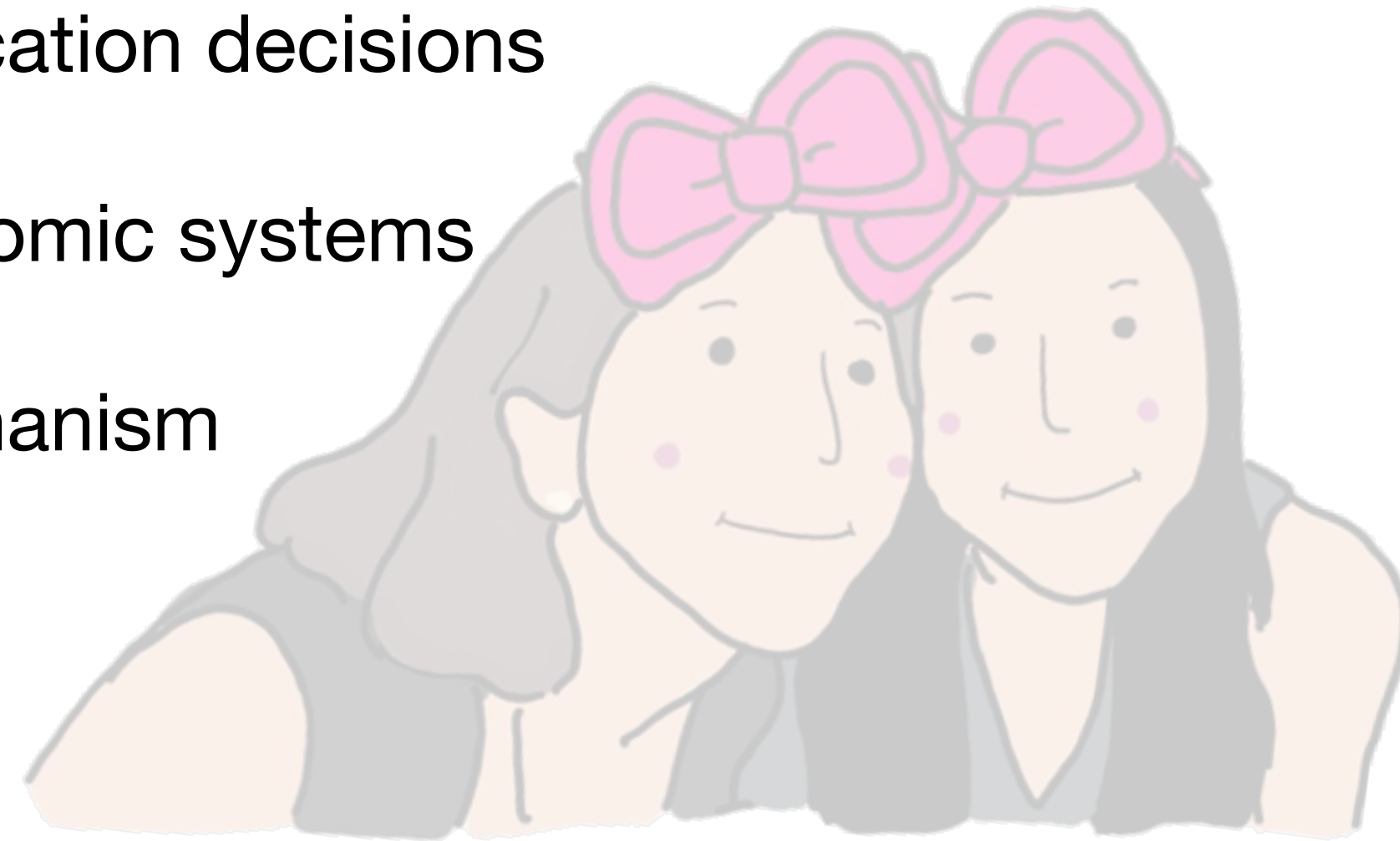


# **MICROECONOMICS - The role of markets in allocating resources**

By Kru P'Eve and Kru P'Da Knockout.Economics

# Overview

1. Identify the difference between microeconomics and macroeconomics
2. Explain the three key allocation decisions
3. Explain the different economic systems
4. The role of the price mechanism



# 1. Identify the difference between microeconomics and macroeconomics

## Microeconomics

Is the study of the behaviour of **households and firms in making decisions.**

## Macroeconomics

Is the study of the **behaviour and the performance of an economy as a whole.** It concentrates on the aggregate changes in the economy (country's output, employment rate, inflation).

## 2. Explain the three key allocation decisions

### Recap :

Basic economic problem : Unlimited wants exceeding finite resources. This creates three key questions about determining resources

- What to produce?
- How to produce it?
- For whom to receive the products?



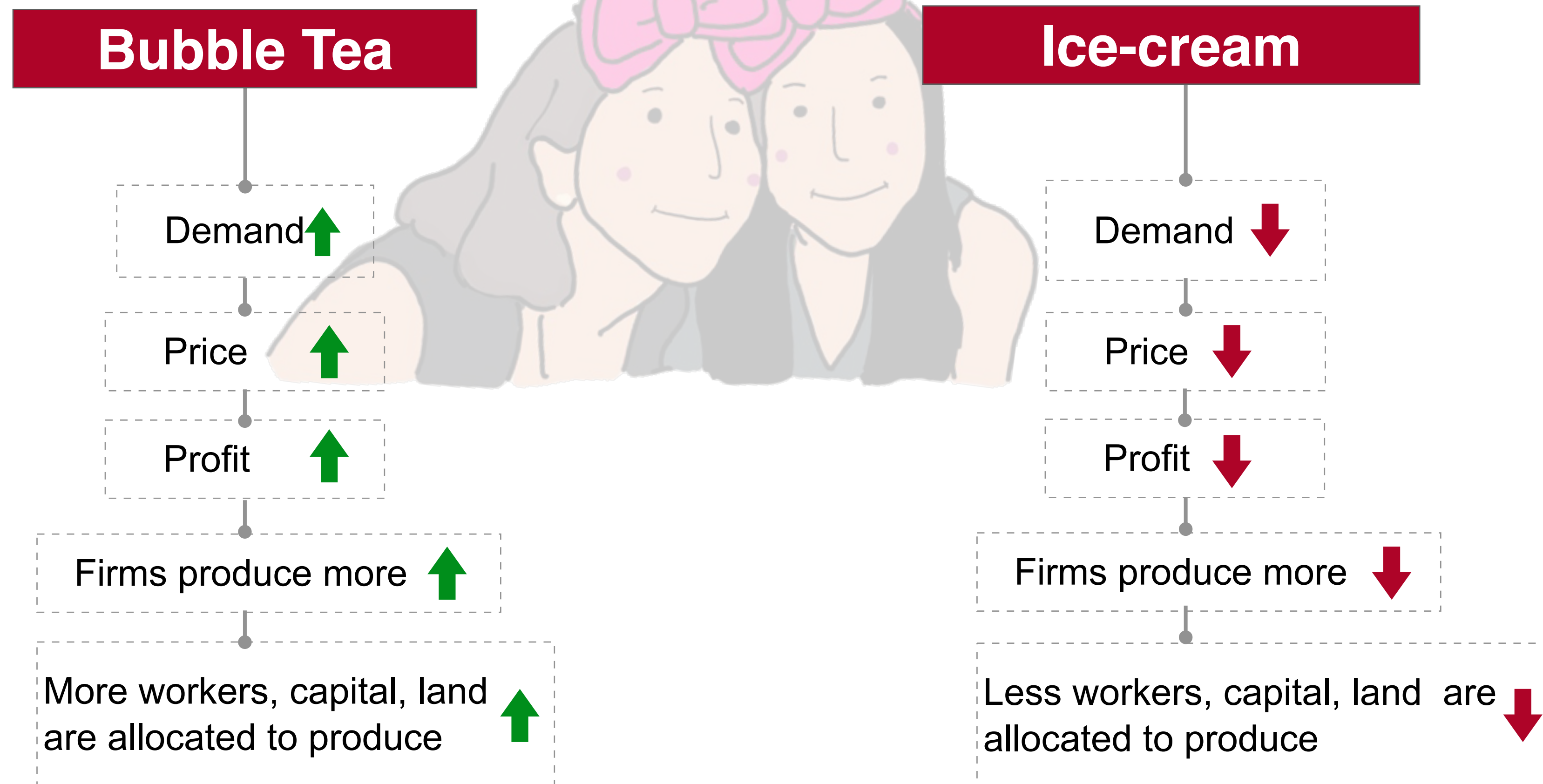
# 3. Explain the different economic systems

|   | Meaning  | What to produce?   | How to produce?   | For whom?  |
|---|--|--|---|--|
| <b>Planned economic system</b><br>(North Korea, Myanmar, Cuba)    | <p><b>Meaning:</b> All resources are owned by <b>the government</b></p> <p><b>Main objective :</b> Standard of living</p>  | Determined by <b>government</b>  | Determined by <b>government</b>   | Determined by <b>government</b><br>(Everyone or who really need it)  |
| <b>Market economic system</b><br>(Singapore, Australia, The USA.) | <p><b>Meaning:</b> <b>Consumers</b> determine what is produced. The resources are allocated by <b>price mechanism</b>. Land and capital are owned by private sector.</p> <p><b>Main objective:</b> Profit maximisation</p>                                   | Determined by <b>consumers</b>   | Incentives for private firms to be <b>efficient</b> and <b>cut cost</b><br>(In order to <b>achieve profit maximisation</b> )  | Anyone who can willing and able to afford goods and services.  |
| <b>Mixed economic system</b>                                      | <p><b>Meaning :</b> <b>Both the public and private sector</b> produces goods and services.</p> <p><b>Main objective:</b></p> <ul style="list-style-type: none"> <li>•Private firm : Profit maximisation</li> <li>•Government : Standard of living</li> </ul> | <ul style="list-style-type: none"> <li>•<b>Private sector :</b> <b>goods and services that people want.</b></li> <li>•<b>Public sector :</b> goods and services that <b>private sector might fail to provide in sufficient.</b></li> </ul> | <ul style="list-style-type: none"> <li>•<b>Private sector :</b> Incentives for private firms to be <b>efficient and cut cost</b></li> <li>•<b>Public sector :</b> goods and services provided by government may be <b>inefficient.</b></li> </ul> | <ul style="list-style-type: none"> <li>•<b>Private sector :</b> anyone who can willing and able to afford goods and services.</li> <li>•<b>Public sector :</b> Everyone or who really need it</li> </ul> |

# 4. The role of the price mechanism

In a market economic system, resources shift automatically as a result of changes in price.

**Price mechanism** market forces of demand and supply allocate resources.



# Knockout Economics



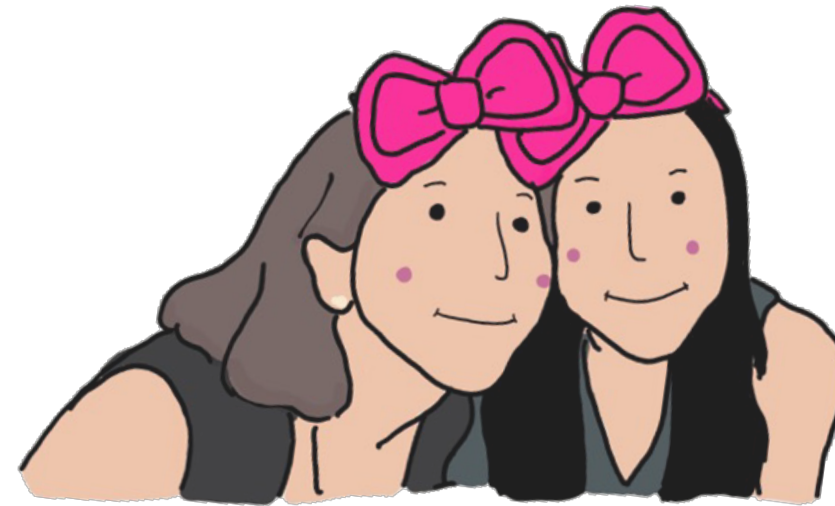
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# **MICROECONOMICS - Exercise-The role of markets in allocating resources**

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# Exercise: MCQ

## 1. Economics is separated into two : microeconomics and macroeconomics

- Statement 1: When the price of tea increases there is a contraction in demand.
- Statement 2: Average price in Thailand dropped by 2% in 2020

|    | Statement 1             | Statement 2             |
|----|-------------------------|-------------------------|
| A. | Macroeconomic Statement | Macroeconomic Statement |
| B. | Microeconomic Statement | Macroeconomic Statement |
| C. | Macroeconomic Statement | Microeconomic Statement |
| D. | Microeconomic Statement | Microeconomic Statement |

# Exercise: MCQ

## 2. What necessarily explains the market system?

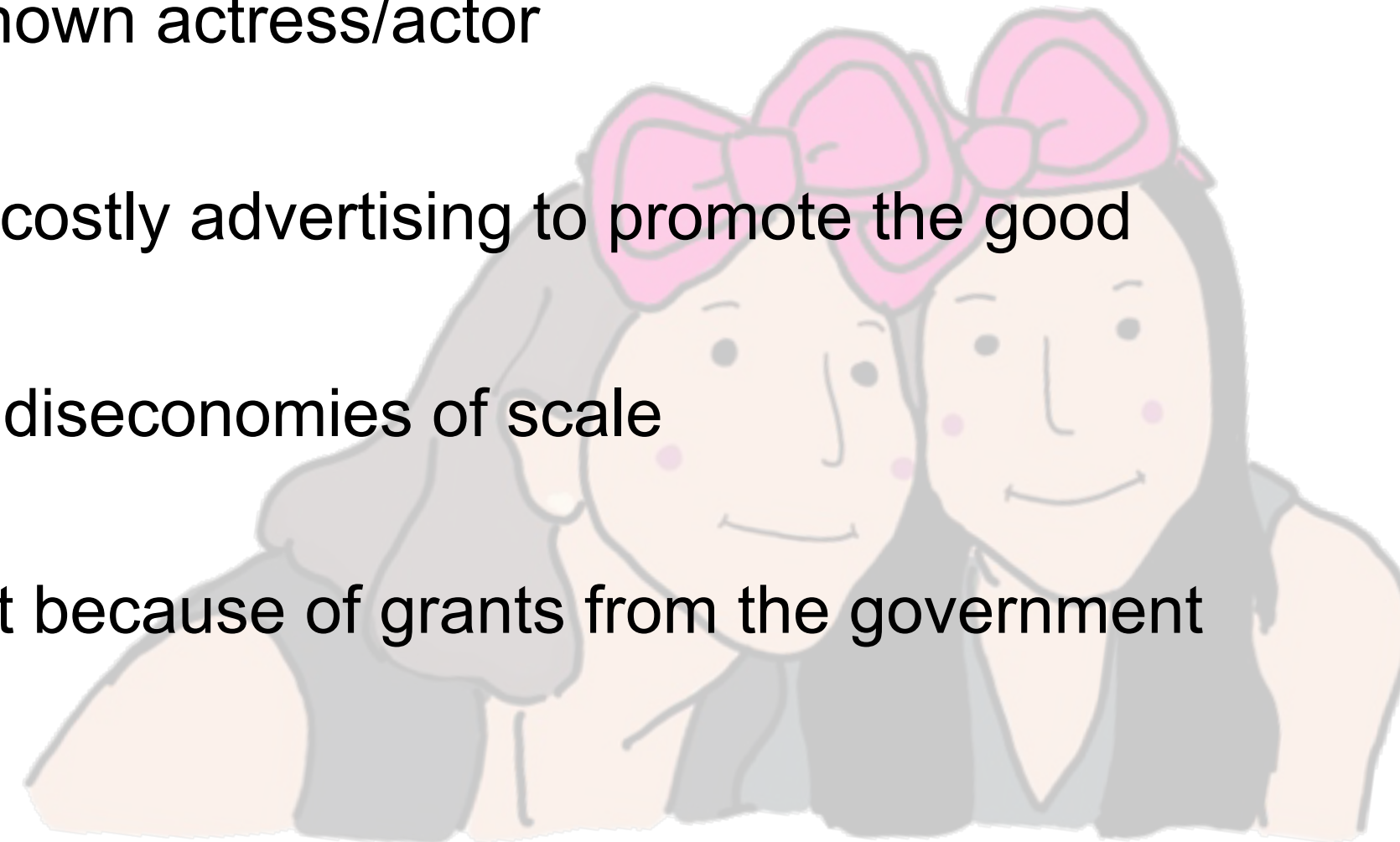
- A. resources are allocated by public sector
- B. limited resources but limitless wants
- C. when all resources are used to produce only producer goods
- D. resources are allocated through demand and supply



## Exercise: MCQ

### 3. What would not be an example of the working of a free market system?

- A. a high price charged for a well-known actress/actor
- B. a high price charged because of costly advertising to promote the good
- C. a high price charged because of diseconomies of scale
- D. a low price charged for train ticket because of grants from the government



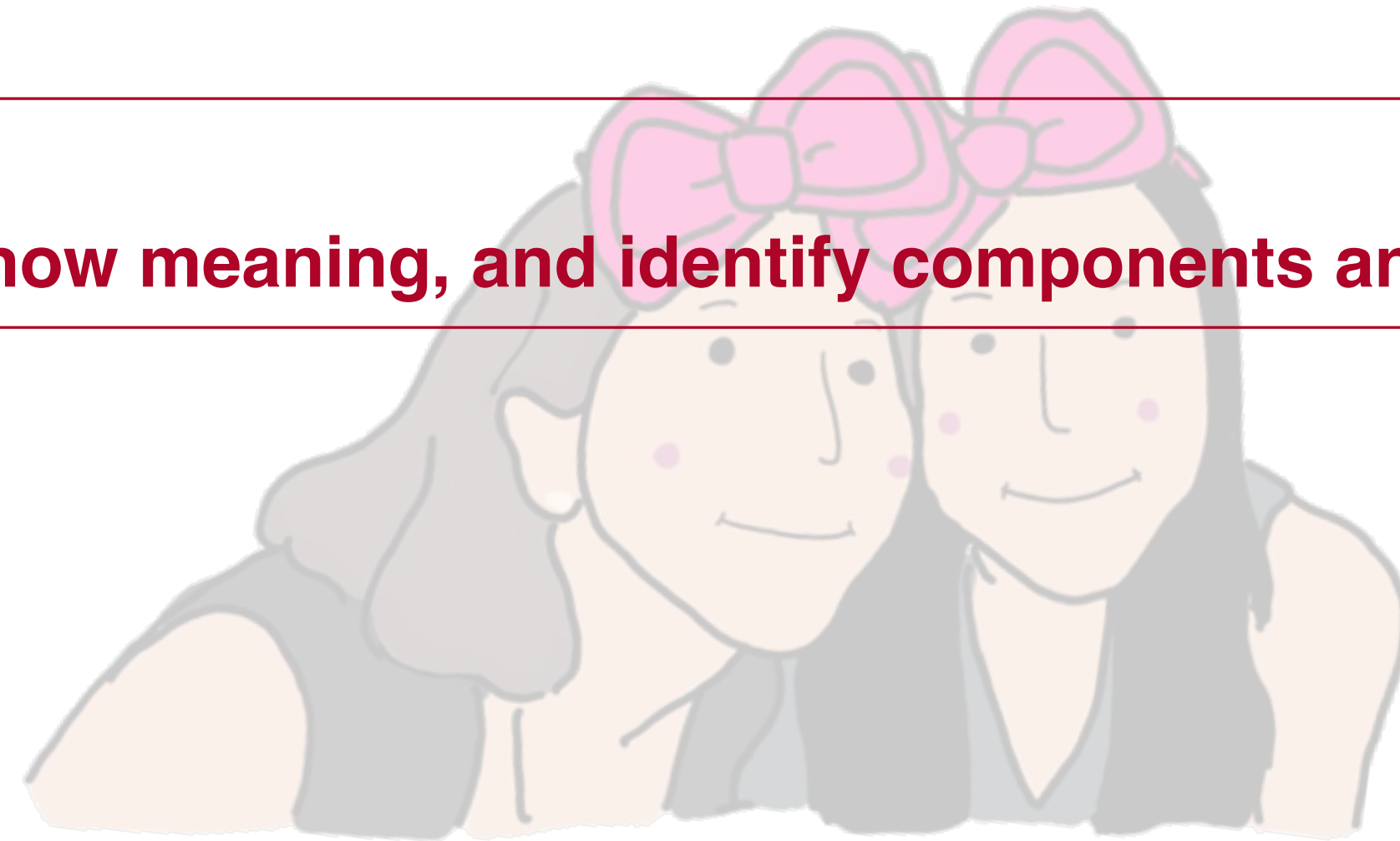
# Exercise: Essay

**1. Analyse the differences between a planned economy and a free market economy.  
[6]**

**Command Word:**

**Analyse: examine in detail to show meaning, and identify components and the relationship between them**

**Knockout Tips:**



# Knockout Economics



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