# CHAPTER 6: THE ROLE OF MARKET IN ALLOCATING OF RESOURCES

## **Key terms**

- Economic system : the organisations that influence economic behaviour and determine how resources are allocated
- Planned economic system : an economic system where the government makes
  the crucial decisions, land and capital are state-owned and resources are
  allocated by the government
- 3. Mixed economic system : an economy in which both private and public sectors allocate resources together
- 4. Market economic system : an economic system where consumers determine what is produced, resources are allocated by the price mechanism and land and capital are privately owned
- 5. Price mechanism: the way the decisions made by households and firms interact to decide the allocation of resources
- 6. Capital intensive : the use of high proportion of capital relative to labour
- 7. Labour intensive : the use of high proportion of labour relative to capital
- 8. Demand: The willingness and ability to buy a product
- 9. Supply: the willingness and ability to sell a product
- 10. Market equilibrium : a situation where demand and supply are equal at the current price
- 11. Market disequilibrium : a situation where demand and supply are not equal at the current price

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# 1. The three key allocation decisions

Functions of economic system is to answer fundamental economic 3 questions.

- ⇒ what to produce?
- $\Rightarrow$  How to produce?
- ⇒ For whom? / Who is to receive the product?

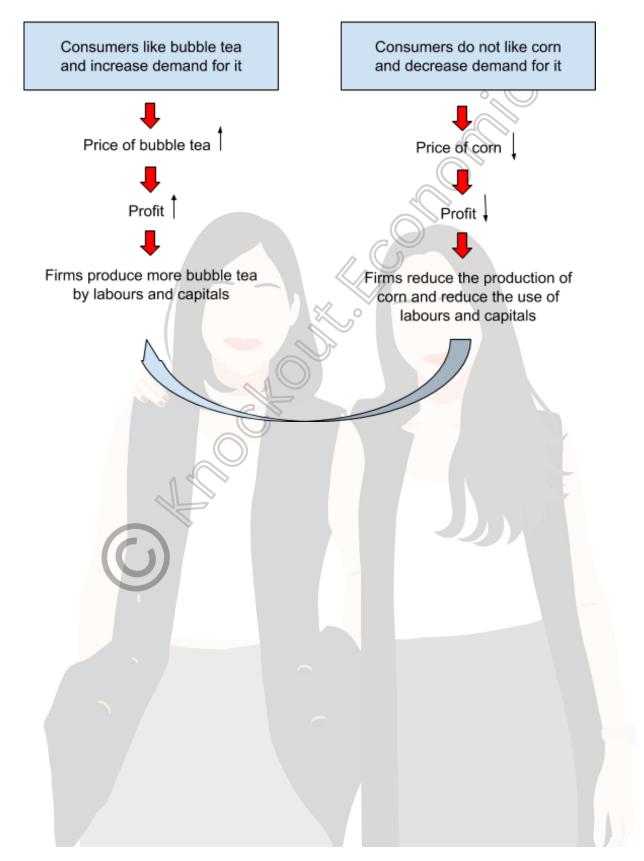
## 2. Different economic systems

Economic systems	Definition	Example
1.Planned economic system / command / collectivist economy	⇒ The state or government makes decisions about what to produce, how to produce it, and who receives it.	E.g. North Korea
2.Market economic system	⇒ Buyers or consumers determine what is produced. They signal what they want to sellers through the price mechanism.	E.g. USA, Australia
3.Mixed economic system	⇒ Both private sector and public sector (government) allocate resources together	E.g. Thailand



#### 3. The role of price mechanism

: Resources are allocated to produce products which consumers want.



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