

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

### Key terms

1. Economic system : the organisations that influence economic behaviour and determine how resources are allocated
2. 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

## 1. The three key allocation decisions

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

⇒ what to produce?

⇒ 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 <b>about what to produce, how to produce it, and who receives it.</b>	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.

