

(O Level) (Economics) (2281/0455)

(Unit no 2): (The allocation of resources: how the market works; market failure)

Recommended Prior Knowledge

It is useful for students to cover Unit 1 before starting this Unit as they should have started to think like economists and because consideration of the allocation of resources follows on naturally from the economic problem, factors of production and opportunity cost.

Context

This Unit links into the previous one by considering how economies decide how to use their factors of production in tackling the economic problem and the opportunity cost involved in a number of decisions including what products to buy. It links forward to Units 3 and 4 with demand and supply analysis helping to explain differences in earnings and demand for factors of production. Market failure also has relevance to the disadvantages of monopoly in Unit 4, to the role of the government as a producer and employer and its influence on private producers in Unit 5 and to the causes of unemployment in Unit 6.

Outline

This is a relatively large Unit. It starts by comparing how resources are allocated in market and mixed economic systems. It then concentrates on demand and supply analysis, including price elasticity of both demand and supply. The Unit moves on to consider the concept of market failure and the benefits of the market system. Finally the difference between social costs and benefits and private costs and benefits is explored with reference to the question of whether resources should be conserved or used and with reference to the relative merits of public expenditure and private expenditure.

AO	Learning outcomes	Suggested Teaching activities	Learning resources
2a	Students should be able to describe the allocation of resources in market and mixed economies.	<p>Students could be allocated a country each which they will follow throughout the course. At this stage they could be asked to consider how much government involvement there is in the economy. Grant has three activities and four multiple choice questions on different economic systems. Moynihan and Titley have a number of exercises on the topic. Dransfield, Cook and King have a useful case study relating to the mixed economy in Mauritius (page 15) and there are a number of questions relating to different types of economies (pages 40-42).</p> <p>One pair of students could be asked to prepare a case for a market economy and another pair could be asked to prepare a case for a mixed economy. The pairs could argue their cases before the class and the class could vote in favour of one of the systems.</p> <p>Students could also be given details on a country they are not following and be asked whether it is operating a mixed or a market economy, what is the evidence for their decision and what other evidence it would be useful to have.</p> <p>In addition, they could examine the first website given here to see if they agree the US is a mixed economy.</p>	<p>Online http://www.economics.about.com/ad/howtheUSconomyworks/a/mixed=economy.htm http://www.scool.co.uk/alevel/economics/free-market-v-command-economies.html (a free market economy, a mixed economy. real world examples.)</p> <p>Textbooks Grant Unit 4 Moynihan and Titley Chapter 3 Dransfield, Cook and King pages 14-15.</p>
2b	Students should be able to demonstrate the principle of equilibrium price and analyse simple market situations with changes in demand and supply	<p>To understand the concept of demand, students could be asked how many e.g. chocolate bars, soft drinks, sandwiches, hot potatoes they would buy at different prices in a week and then to plot the combined class figures on a demand diagram.</p> <p>Students could also use the information in Grant (page 41) to plot a demand curve and undertake activity 2 in Grant (page 42) to distinguish between an extension and a contraction in demand. They could also answer the case study questions in Dransfield, Cook and King (page 17).</p> <p>To introduce the concept of supply, students in groups could be given hypothetical information on the cost of producing e.g. soft drinks and then be asked if they were running the firm how much they would be prepared to sell at different prices in a week.</p> <p>Students could be shown a video of an auction or a simple auction could be held in the class to introduce the concept of equilibrium price. Local</p>	<p>Online http://www.bized.co.uk/learn/economics/markets/mechanism.interactive.part1.htm http://s-cool.uk/alevel/economic/supply-and-demand (the theory of demand, movements along a demand curve, the theory of supply, movements along a supply curve, the price mechanism)</p> <p>Textbooks Grant Unit 5 Moynihan and Titley Chapter 7 Dransfield, Cook and King pages 16-21.</p>

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		<p>examples of shortages and surpluses could be used to discuss disequilibrium price and why the markets may return to equilibrium. Students could undertake activity 3 in Grant (page 48), the four MC questions in Grant (pages 49/50), exercise 8 in Moynihan and Titley (page 118) and the case study questions in Dransfield, Cook and King (page 21).</p> <p>Both the bized and the s-cool websites are good on the topic.. The s-cool website is technically an A level website but is very suitable for O level/IGCSE.</p>	
2d	Students should be able to define price elasticity of demand and supply and perform simple calculations	<p>Students find this a relatively difficult area and need to spend some time on it. You might wish to introduce the concept of price elasticity of demand (PED) by giving students data on demand and price of two products. In the case of one, total revenue could fall when price rises and total revenue for the other product could rise when price rises. You could then explain that it is not sufficient for firms to know that a rise in price would cause a fall in demand, they need to know by how much demand would fall.</p> <p>Then students can go on to calculate PED, categorise the different degrees of elasticity and consider the factors influencing PED. They will need a considerable amount of practice at this. Grant provides four activities and four MCs and exercise 12 (page 124) and exercise 13 (page 125) in Moynihan are useful. Dransfield, Cook and King have some useful questions (pages 26-27), some of which relate to changes in price on Indian Railways.</p> <p>Price elasticity of supply (PES) may be introduced by asking students to consider why a rise in price would lead to a greater percentage rise in the supply of pens than in the supply of rice. Again students need practice in calculating PES, categorising different degrees of PES and the factors influencing PES. There are three activities and four MC questions in Grant. Dransfield, Cook and King have a number of questions on PES (pages 28-29).</p> <p>You might also ask students to construct MC questions on price elasticity of demand and price elasticity of supply. This activity should help to clarify their understanding and their MC technique.</p>	<p>Online http://www.bized.co.uk/learn/economics/markets/mechanis./interactive/part1.htm (exercises – calculation of PED and relationship between price changes and revenue) http://www.s-cool.co.uk/alevel/economics/supply-and-demand (PED and PES) http://www.s-cool.co.uk/a/eve/economics/elasticities/price-elasticity-of supply.htm (diagram and determinants http://www.tutor2u.net/economics/content/topics/elasticity/elastic.htm (degrees of PED and determinants) Textbooks Grant Units 8 and 9 Moynihan and Titley Chapter 7 Dransfield, Cook and King pages 26-29</p>

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2f	Students should be able to describe the concept of market failure and the reasons for its occurrence	This is quite a difficult area for students but one which they can find interesting and have strong views on. You might want to first recap how a market would work well with demand equating supply and firms responding quickly and fully to changes in consumer demand. There are a number of reasons for market failure; you could consider including failure to take into account all costs and benefits, information failure, merit and demerit goods, public goods and abuse of market power. Newspaper articles can be used to illustrate market failure and Grant has four activities and four MCs on the issue. Dransfield, Cook and King have some questions which relate to a case study concerning the provision of vaccinations and family planning services. You could also get students to work in pairs on presentations on a number of topical issues e.g. is cosmetic surgery a merit good, should university education be provided free, should high fat food be taxed, are lighthouses still merit goods?	Online http://www.bized.co.uk/learn/economics/marketfail.characteristics/index.htm (market failure, virtual developing country – the ivory market in two countries) Textbooks Grant Unit 11 Moynihan and Titley Chapter 21 Sections 1 – 4. Dransfield, Cook and King pages 34-35.
2g	Students should be able to evaluate the merits of the market system.	You might want to ask students to research the advantages and disadvantages of the market system and to hold a class debate. You could also ask students to research why some particular countries have chosen to move towards a market economy, the advantages and disadvantages they have gained and the extent to which they are now a market economy. Alternatively you could ask students to examine the extent to which their own economy is a market economy or whether their economy would benefit from moving closer to a market economy.	Online http://www.s-cool.co.uk/alevel/economics/free-market-v-command-economies.html (the advantages and disadvantages of a free market economy, which system is best, the transition economies) Textbook Dransfield, Cook and King pages 32-33
2h	Students should be able to define private and social costs and benefits and discuss conflicts of interest in relation to these costs and benefits in the short term and long term through studies of the following issues: <ul style="list-style-type: none"> • conserving resources v using resources • public expenditure versus private expenditure 	It may be useful for students to first consider private and social costs and benefits in the context of a project such as building a road, an airport or a railway line. They could be asked to identify private and external costs and benefits involved in the project. Then different groups of students could be asked to present a case for conserving resources, using resources now, relying on public expenditure to build a hospital and using private expenditure to build a hospital. Grant has a number of activities on the topic and Moynihan and Titley has an interesting exercise (page 400). Dransfield, Cook and King have an interesting consideration of the building of a new factory in Thailand.	Online http://www.bized.co.uk/learn/economics/marketfail.characteristics/index.htm (a presentation) http://conserveafrica.org.uk/natural-resource.php (this considers the argument for sustainable development) Textbooks Grant Units 12 and 13

		At the end of this Unit it would be useful for students to recap the topics by undertaking Section 2 Grant Workbook and the questions at the end of Section 2 Grant.. It would also be useful to answer the questions in Dransfield, Cook and King (pages 40-42).	Grant Workbook Section 2 Moynihan and Titley Chapter 21 Dransfield, Cook and King pages 36-39
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