Question 1

“No one can deny that the mixed economy has reaped the benefits of the market and planned economies in the process of resource allocation. However, the path towards such a transition is tough as seen in the transformation of Russia and China’s economy towards a structure of “mixed economy”?

1. Explain how resource allocation is conducted in a “mixed economy”?
2. What are the possible problems encountered in the transformation and its formation? [15]

a) Introduction

* Explain the concept of “a mixed economy”/resource allocation”
* State the characteristics of “ a mixed economy”

Main body

1. Explain the mechanism used in a mixed economy.→market forces/govt mtn

2. Explain how resource allocation can be done in a mixed economy.

* Allocative function
* Production function
* Distribution function

Conclusion:

The mixed economy uses both market force/govt intervention to influence the economic activities especially in its fundamental task of resource allocation.

b) Introduction

State that the mixed economy is attempting to reap the benefits of the two economic by integrating its advantages but the task is not an easy one in the corner towards it and its formation

Main body

Explain the problems encountered in the transition

From the command economy’s perspective.

* Lack of private entrepreneur →inadequate skills to sub. govt’s role in coordinating economic activities
* Lack of private fund→inadequate for the estimation of private enterprise→low rate of private investment→unable to increase production
* Absence of adequate infrastructure/institutions to support/cultivate development of market mechanism
* Structural rigidities→former economic structure fails to accommodate the needs of the new structures- immobility of factors/extensive imperfect market

From the market economy’s perspective

* Resistance from private sector-government measures may undermine the interest of the private sector
* Lack judiciary & legal system to support the transition of the economic system
* The involvement of the governmentt may undermine the interest of private sector→crowding out effect
* Lack the administrative support→public sector may not have the manpower with expertise and knowledge to solve the problems in the private sector.

Problems in the formation of the mixed economy

* 1. Complexity of the mixed economic system- ideologies and mechanism of the two systems may create confusion.
  2. degree of emphasis- indication towards each app depends on the stage of economic development- e.g. Singapore – in early years- greater govt involvement→now private sector is taking the lead
  3. conflicts of interest- both sector are seeking to promote their own interest- interest of society vs private interest

Conclusion: in theory, the mixed economy seemed to be able to reap the benefits of the two systems. However, in practice, the mixed economy will encounter extensive economic problems in the implementation and to a certain extent, after its formation.

Long Question

**Qn: Using Production Possibility curve, explain how increase in government spending will affect the growth of the economy? (10) (actual and potential growth**

Focus:

a. Show how increase in government expenditure will lead to actual growth (raise production and real GDP) /

b. Show how increase in government expenditure will lead to potential growth (expansion of resources shift LRAS to the right/outward shift of PPC)

**Introduction**

definition of growth of economy – actual and potential growth

increase in government spending- a form of increase in AD

**Main Body**

1. **How increase in government spending leads to actual growth**
2. **how increase in government spending leads to potential growth**
3. **How this is seen by the illustration from PPC**

* **draw the diagram and description of diagram**

1. **analysis – key determining factor of this economic effects**

* **amount of increase in government spending/ type of govt spending**
* **value of the multiplier**
* **govt spending on roads – raise mobility of resources – increase efficiency – expand resource capacity – raise potential growth**
* **type of government spending – sr / lr Concusion**