2.1 The Three Basic Economic Problems

1. People need to consider three basic economic problems when they allocate resources. They are:

(a) what to produce: making choices about the kinds and quantities of goods to produce

(b) how to produce: making choices about the methods of production

(c) for whom to produce: making choices about how to distribute goods to people in society

2.

A magazine publisher decides to publish a new food and beverage magazine. Also, it decides to employ more editors to support business development.

Which basic economic problem(s) is/are related to the above case?

☑ 'What to produce'

☑ 'How to produce'

☐ 'For whom to produce'

2.2 How Do Different Societies Tackle the Basic Economic Problems?

3.

Types of economy

Command economy	Market economy	Traditional economy
• Resources are allocated by government planning.	• Resources are allocated by price mechanism.	• Resources are allocated by customs and traditions.

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4. Which of the following statements about a planned economy is/are CORRECT? (You may choose more than one answer.)

☑ Most of the resources are owned by the state.
☑ Most of the resources are allocated by government commands.
☑ Most of the basic economic problems are solved by government command.
☐ Most of the goods are produced by the government.
☐ People do not have private property rights over any resource.

5. Which of the following statements about a market economy is CORRECT? (You may choose more than one answer.)

☑ Most of the resources are privately owned.
☑ Most of the resources are allocated by market mechanism.
☑ Most of the basic economic problems are tackled by market mechanism.
☐ People only compete for resources on the basis of price.
☐ People have private property rights over all resources.

6. A cosmetics shop decided to sell Korean cosmetics instead of Japanese cosmetics in order to make higher profits. This is an example of solving basic economic problems by *(customs and traditions / government command / market mechanism)*.

7. In reality, most societies are *(traditional economies / command economies / market economies / mixed economies)*.

2.3 Relationship between Specialisation, Exchange and Private Property Rights

8. Specialisation occurs when workers specialise in producing a good or a stage of production of a good.

9. There are three sets of private property rights. They are:

(a) exclusive right to use: the right to exclude others from using his or her property

(b) exclusive right to receive income: the exclusive right to receive income generated from his or her property

(c) right to transfer: the right to transfer his or her property to other people

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10. Study the following table and identify what rights the user may have over the property. Tick (✓) the appropriate box(es).

	Exclusive right to use	**Exclusive right to receive income**	**Right to transfer**
(a) a novel borrowed from the school library	✓		
(b) a novel bought from a bookshop	✓	✓	✓
(c) the piano skills one has	✓	✓	✓

11. Do the following people have a full set of private property rights over the computer? If yes, tick (✓) the appropriate box(es).

☐ an accountant who borrows a computer from the company for working from home

☐ a student who uses a computer in the computer room at school

☑ a teacher who buys a new computer for preparing teaching materials

12. Well-defined and well-protected private property rights are a prerequisite for the functioning of price mechanism.

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