**RWS#4: The Role of the Free Market**

**Due for: Monday 3rd December 2018**

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| **GENERAL INSTRUCTIONS:**  *Please complete a revision worksheet summarizing the work from the last two weeks. The work should be taking you* ***up to 2 hours*** *to complete and should consist of a 1 A4 double paged summary based on the questions below. Please print out a double sided version to be handed in and marked on the date above (emails will not be accepted so make sure you are printing off your sheet before the lesson).*  *Remember to use all of the space over your two sides of A4 and make sure the ‘margins’ in Word are put as ‘narrow’. Feel free to reduce the size of the font if you are running out of space but nothing less than size 10. A better way to reduce would be to reread what you have written and try to be more succinct; it must fit onto two sides of A4 only!*  *You should be reading and using all the compulsory resources below (remember you will have already read an awful lot of these for homework and in class but there are a few extras I want you to read.*  *This revision worksheet should be taking you 2.5 hours…I suggest you spend 45 minutes writing up all your notes from class into a rough draft. Then, spend the next hour reading any extra information or clarifying concepts if you do not understand them. Then use the final 45 minutes to edit the work, make it look pretty and print it off.*  *REMEMBER THAT IF YOU DO NOT HAVE A PRINTER AT HOME YOU MUST FIND TIME BEFORE THE LESSON TO PRINT IT OFF AT COLLEGE*  *ALSO MAKE SURE THAT AS WELL AS STORING A COPY ON A MEMORY STICK, YOU ALSO EMAIL YOURSELF SO THERE CAN BE NO COMPUTER ISSUES WHEN IT COMES TO PRINTING OFF YOUR WORK* |
| **SOURCES**  **COMPULSORY (YOU MUST USE)**   * Notes you have taken in class * PREP homework – notes we reviewed in class which you prepared at home * Course textbook – pp 38-42; pp 97-98   **EXTENSION (IF YOU HAVE TIME, TRY TO READ OR WATCH THESE)**   * Economic welfare and consumer/producer surplus video and explanation - <http://economicsonline.co.uk/Competitive_markets/Consumer_and_producer_surplus.html>   **ALL OF THESE RESOURCES CAN BE FOUND ON GODALMING ONLINE – ANY ISSUES, EMAIL OLLY on** [**ods@godalming.ac.uk**](mailto:ods@godalming.ac.uk) |

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| **SPECIFIC INSTRUCTIONS:**  **TITLE: RWS4 – The Role of Free Markets**  **The Free Market (1/2 side of A4)**   * Introduction to the ‘free market’   + Define the ‘free market’ – explain how Government’s are absent from the free market apart from to establish property rights   + Explain what the economic problem is and how free markets solve the economic problem through the price mechanism according to some economists.   + What is the alternative method (planned economies/government distribution etc.) to free markets in terms of solving the economic problem and why some economists do not think this works? * Measure 1 - Efficiency Economics: Allocative and Productive Efficiency:   + Define allocative and productive efficiency using real life examples (remember we looked at ‘The Shuc’ for allocative and ‘Uber’/’Amazon’ for productive).   + To what extent do you think the invention of the internet in free markets has led to more productive efficiency in specific markets? (remember to have an argument for and against before reaching a conclusion) * Measure 2 - Welfare Economics: Consumer and Producer Surplus:   + What is welfare economics?   + Using a diagram (supply and demand in equilibirum), explain what consumer and producer surplus is.   + Explain why there might be a ‘deadweight loss’ of welfare to society if the market price is not at equilibrium and therefore welfare is not maximized   **The Role of Prices in the Market (1 side of A4)**   * Define the three main functions of prices – Signaling, Incentives and Rationing * Draw four diagrams in equilibrium (so supply and demand diagram on one graph) and then show:  1. An increase in demand 2. A decrease in demand 3. An increase in supply 4. A decrease in supply  * Explain what is happening in each diagram by using ‘disequilibrium analysis’ which is the five stage explanation model we looked at in lessons (see the class powerpoint for a reminder or page 41 in your textbook helps)   **Introduction to “Behavioural Economics” (1/2 of a side of A4)**   * What are the traditional assumptions of classical or neo-classical economics with the market (the traditional view?) * How does behavioural economics challenge this? (Use examples such as bias, framing, loss aversion, altruistic behaviour etc. |