

**ECONOMICS**

**UNIT 1**

# **2018**

**MARKING GUIDE**

Please note that the following notes are guidelines only and are intended

to provide a common reference for markers. They are in no way to be

considered as an exhaustive guide or checklist for the marking of this exam.

**Section One: Multiple choice 24% (24 Marks)**

|  |  |
| --- | --- |
| **Question** | **Answer** |
| 1 | C |
| 2 | C |
| 3 | C |
| 4 | D |
| 5 | B |
| 6 | A |
| 7 | D |
| 8 | B |
| 9 | B |
| 10 | B |
| 11 | B |
| 12 | B |
| 13 | A |
| 14 | C |
| 15 | C |
| 16 | C |
| 17 | D |
| 18 | B |
| 19 | C |
| 20 | A |
| 21 | A |
| 22 | B |
| 23 | B |
| 24 | D |

**Section Two: Data interpretation/Short response 36% (36 Marks)**

**Question 25**

1. What happened to the price of energy in the six months prior to January 2017?

(1 mark)

|  |  |
| --- | --- |
| **Description** | **Marks** |
| * Prices have risen to their highest level since the drought in 2008. * Rose by about $10 a megawatt hour.   NB – should quote the source in their answer. | 1 |
| **Total** | **1** |

(b) What was the cause of this change in price? (1 mark)

|  |  |
| --- | --- |
| **Description** | **Marks** |
| * The closure and slowdown in production of power stations in the National Electricity Market which led to a fall in supply of 23%.   NB – should quote the source in their answer. | 1 |
| **Total** | **1** |

1. Draw a diagram illustrating this change in the electricity market and explain the impact that this will have on the equilibrium price and quantity.

(4 marks)

|  |  |
| --- | --- |
| **Description** | **Marks** |
| Explanation | |
| * Clearly outlines the original equilibrium price and quantity. * Identifies the change in the market leading to a decrease in supply and shifting the curve to the left and a contraction in demand. * Explains the impact of the change in the market on the equilibrium price and quantity with reference to the curve. | 3 |
| Diagram | |
| * Draws correct and fully labelled diagram showing a decrease in supply. | 1 |
| **Total** | **4** |

1. Discuss the impact that these changes in the electricity market will be likely to have

on **one** **(1)** other market. (2 marks)

|  |  |
| --- | --- |
| **Description** | **Marks** |
| * Identifies an appropriate market that will be affected by increasing energy prices. | 1 |
| * Discusses the impact of the change on the market. For example, energy is a significant cost of production for manufacturing. Increased energy costs will result in increased costs of production for manufactured goods resulting in firms producing less at each and every price level. Ultimately, this will result in higher prices for consumers. | 1 |
| **Total** | **2** |

1. Identify whether the electricity market is likely to have a price elasticity of demand coefficient that is less than, or greater than, one. Explain your reasoning. (4 marks)

|  |  |
| --- | --- |
| **Description** | **Marks** |
| * Recognises that the electricity market is likely to have a price elasticity of demand coefficient <1 i.e. inelastic demand. | 1 |
| * Provides a detailed and accurate explanation of reasoning.   Answers could include:   * Energy is a necessity. * There are few substitutes for energy. * Consumers are unlikely to be able to change their patterns of consumption in the short term but can adjust through shifting to alternatives in the longer term. | 3 |
| **Total** | **4** |

**Question 26**

(a) Identify the equilibrium price and quantity in the market for potatoes. (1 mark)

|  |  |
| --- | --- |
| **Description** | **Marks** |
| * Price - $2/kg, Quantity – 2000 (must include $ sign and /kg) | 1 |
| **Total** | **1** |

1. Calculate the total revenue for producers at the equilibrium price and quantity.

(1 marks)

|  |  |
| --- | --- |
| **Description** | **Marks** |
| * Total revenue - $4000 (must include $ sign) | 1 |
| **Total** | **1** |

(c) Calculate the price elasticity of demand for potatoes when price moves from $1 per kg to $2 per kg. Is the demand for potatoes elastic or inelastic? (2 marks)

|  |  |
| --- | --- |
| **Description** | **Marks** |
| * Ped = 0.3 (1dp) * Inelastic | 2 |
| **Total** | **2** |

(d) The government legislates to introduce a price floor in the market for potatoes. Draw the price floor on the diagram and explain why the government may choose to implement such a measure. (3 marks)

|  |  |
| --- | --- |
| **Description** | **Marks** |
| * Defines price floor. | 1 |
| * Correctly annotates diagram showing a price floor. | 1 |
| * Appropriate explanation for implementation of price floor.   Answer might include, though not limited to:  Governments have been pressured to implement price floors in the agricultural industry to protect their profits from the uncertainty that can be caused by uncertain environmental and market conditions. | 1 |
| **Total** | **3** |

1. Explain how a price floor creates deadweight loss and interferes with the efficiency of the market for potatoes. Show this on your diagram. (5 marks)

|  |  |
| --- | --- |
| **Description** | **Marks** |
| Explanation | |
| * Defines the term efficiency. * Identifies how the price floor affects consumer surplus and producer surplus with reference to the diagram. * Explains that price floors reduce market efficiency by decreasing total surplus and creating a deadweight loss. | 3 |
| Diagram | |
| * Correctly labels diagram showing the consumer surplus, producer surplus and deadweight loss. | 2 |
| **Total** | **5** |

**Question 27**

(a) Define the term market share. (1 mark)

|  |  |
| --- | --- |
| **Description** | **Marks** |
| * The portion of a market controlled by a particular company or product. | 1 |
| **Total** | **1** |

(b) Identify the market structure of the Australian Supermarket industry. Explain your answer with reference to the source. (2 marks)

|  |  |
| --- | --- |
| **Description** | **Marks** |
| * Correctly identifies market structure as an oligopoly. | 1 |
| * Explains answer with reference to evidence from the source. For example, students might reference that the four largest supermarket chains in Australia control 91.4% of the market. | 1 |
| **Total** | **2** |

1. Outline two (2) different types of anti-competitive practice and outline how these practices can reduce competition in a market. (3 marks)

|  |  |
| --- | --- |
| **Description** | **Marks** |
|  | |
| * Student identifies and briefly describes two different types of anti-competitive behaviour.   Answer might include:   * + Cartel   + Collusion   + Market sharing   + Collusive tendering   + Any other form of anti-competitive behaviour | 2 |
| * Answer clearly identifies how engaging in the behaviours identified reduces competition in a market. | 1 |
| **Total** | **3** |

1. Using a model, discuss the effect of the entrance of Lidl and Amazon Fresh into the supermarket industry on consumers, producers and overall efficiency in Australia.

(6 marks)

|  |  |
| --- | --- |
| **Description** | **Marks** |
| Explanation | |
| Consumers   * Greater competition in the market should lead to lower prices for consumers. * Greater variety of goods and services. * Overall increase in consumer surplus. | 1 |
| Producers   * Greater competition in the market will lead to decreased market power on the part of existing firms. * Less efficient / smaller producers may be forced out of the market place. * Overall, producer surplus will decrease. | 1 |
| Overall efficiency   * Technical efficiency improves as less efficient / smaller producers are forced out of the market place. * Allocative efficiency improves as consumers are able to access the goods and services they require at cheaper prices.   Dynamic efficiency will improve as firms are forced to adapt in order to compete in a more competitive market. | 2 |
| Diagram | |
| * Uses a correctly labelled diagram showing the difference between a monopoly vs competitive market. * Must refer to the model in the answer. | 2 |
| **Total** | **6** |

**Section Three: Extended Answer 40% (40 Marks)**

**Question 28**

1. Explain how the price mechanism assists in the allocation of resources in a market economy. (10 marks)

|  |  |
| --- | --- |
| **Description** | **Marks** |
| Explanation | |
| * Defines the price mechanism i.e. refers to the manner in which the prices of commodities affect the demand and supply of goods and services. | 1 |
| * Identifies that price signals to consumers and producers whether they should enter or leave a market. | 1 |
| * Explains the influence of price on consumers and producers. | 1 |
| * Provides an explanation of why equilibrium allows for the most efficient allocation of resources in a market economy. | 2 |
| * Discusses how the price mechanism operates to clear either a surplus and/or a shortage. | 2 |
| **Subtotal** | **7** |
| Diagram(s) | |
| * Draws correct and fully labelled diagram(s) and clearly linked to discussion. | 3 |
| **Subtotal** | **3** |
| **Total** | **10** |

1. Price controls such as maximum prices only serve to distort the market. Discuss.

(10 marks)

|  |  |
| --- | --- |
| **Description** | **Marks** |
| Explanation | |
| * Defines the term price control i.e. government-mandated legal minimum or maximum prices set for specified goods | 1 |
| * Provides an example of price control. | 1 |
| * Identifies price controls that mandate a maximum price are known as price ceilings and explains that government often sets these for reasons of equity. | 1 |
| * Explains how price ceilings impact on consumer surplus and producer surplus. | 2 |
| * Discusses how the price ceilings result in distortion of the market by decreasing market efficiency by decreasing total surplus i.e. deadweight loss. | 2 |
| **Subtotal** | **7** |
| Diagram(s) | |
| * Draws correct and fully labelled diagram(s) showing consumer surplus, producer surplus and deadweight loss, and clearly linked to discussion. | 3 |
| **Subtotal** | **3** |
| **Total** | **10** |

**Question 29**

(a) Discuss the concept, and measurement, of price elasticity of demand. (6 marks)

|  |  |
| --- | --- |
| **Description** | **Marks** |
| Explanation | |
| * Defines the term price elasticity of demand i.e. the responsiveness in the quantity demanded to a change in price. | 1 |
| * Explains how Ped is measured. | 2 |
| * Discusses the difference between elastic, inelastic and unitary demand. | 2 |
| * Draws an appropriate diagram demonstrating elastic, inelastic and unitary elasticity. | 1 |
| **Total** | **6** |

1. With reference to the quote, explain how time influences the price elasticity of demand for gasoline. Identify and explain **two** other factors which might influence the price elasticity of demand for gasoline. (7 marks)

|  |  |
| --- | --- |
| **Description** | **Marks** |
| Explanation | |
| * Student clearly describes how time influences the price elasticity of demand for gasoline i.e. in the short term price elasticity of demand is relatively inelastic; however, over time consumers have the ability to shift their demand to other products. * For full marks students should refer directly to the quote. | 3 |
| * Identifies and explains **two other factors** that influence the price elasticity of demand for gasoline including either: * Availability of substitutes * Luxury or necessity * Proportion of income   Each factor has 2 marks available. | 2x2  (4 marks) |
| **Total** | **7** |

1. A tax on gasoline would be an effective way for the government to raise revenue. Discuss. (7 marks)

|  |  |
| --- | --- |
| **Description** | **Marks** |
| Explanation | |
| * Explains that the implementation of a tax will initially impact on producers and shift the supply curve to the left. The result is an increase in price and a small contraction in the quantity demanded. | 2 |
| * Identifies that the incidence of the tax will be higher on consumers than producers as demand is more inelastic than supply. | 2 |
| * Discusses that a tax on gasoline would be an effective way to raise revenue for government. Student should agree with statement. | 1 |
| **Subtotal** | **5** |
| Diagram(s) | |
| * Draws correct and fully labelled diagram(s) and clearly linked to discussion. | 2 |
| **Subtotal** | **2** |
| **Total** | **7** |

**Question 30**

1. Using marginal benefit and marginal cost, show and explain why a competitive market might be considered the most efficient market form. (10 marks)

|  |  |
| --- | --- |
| **Description** | **Marks** |
| Explanation | |
| * Explain what is meant be a competitive market i.e. refers to a market in which a large numbers of producers, each with a small market share, compete with each other to satisfy the wants and needs of a large number of consumers. | 2 |
| * Defines the term efficiency i.e. refers to the situation where the maximum amount of goods and services are produced with a given level of resources. | 1 |
| * Explains how the demand curve reflects marginal benefit and that the supply curve reflects marginal cost. Relates to concept of consumer, producer and total surplus. | 3 |
| * Explains why equilibrium reflects the optimal position in the market. | 1 |
| **Subtotal** | **7** |
| Diagram(s) | |
| * Draws correct and fully labelled diagram(s) and clearly linked to discussion. | 3 |
| **Subtotal** | **3** |
| **Total** | **10** |

(b) Competitive markets don’t necessarily result in equity in a society. Discuss the concept of equity and outline the policy options that governments can use to promote equity.

(10 marks)

|  |  |
| --- | --- |
| **Description** | **Marks** |
| Explanation | |
| * Defines the term equity i.e. is the concept or idea of fairness in economics, particularly in regard to taxation or welfare. | 1 |
| * Discuss the difference between horizontal and vertical equity. | 1 |
| * Explanation of the trade-off between efficiency and equity. | 1 |
| * Discuss why the government may intervene in competitive markets to encourage equity. | 1 |
| * Clearly outlines policy options that governments can use to promote equity: * Government regulation * Taxation / welfare * Subsidies | 3x2  (6 marks) |
| **Total** | **10** |

**Question 31**

(a) Differentiate between positive and negative externalities. Illustrate how negative externalities result in a deadweight loss. (10 marks)

|  |  |
| --- | --- |
| **Description** | **Marks** |
| Explanation | |
| * Defines the term positive externality. | 1 |
| * Provides an example of a positive externality. | 1 |
| * Defines the term negative externality. | 1 |
| * Provides an example of a negative externality. | 1 |
| * Explains that negative externalities occur as a result of overproduction and the failure of firms to take into account the social costs as well as the private costs of production. | 3 |
| **Subtotal** | **7** |
| Diagram(s) | |
| * Draws correct and fully labelled diagram which is clearly linked to discussion. | 3 |
| **Subtotal** | **3** |
| **Total** | **10** |

(b) Explain why a government may introduce a subsidy in order to promote positive externalities. (10 marks)

|  |  |
| --- | --- |
| **Description** | **Marks** |
| Explanation | |
| * Explains what is meant by government intervention i.e. refers to regulatory action taken by government that "interfere" with decisions made by individuals, groups and organisations about social and economic matters. | 1 |
| * Define the term positive externality. | 1 |
| * Provide an example of circumstances in which the government may choose to intervene to resolve a positive externality. | 1 |
| * Define the term subsidy. | 1 |
| * Using appropriate examples student discusses why a government might introduce a subsidy in order to encourage production which promotes positive externalities. | 3 |
| * Explains why equilibrium reflects the optimal position in the market. | 1 |
| **Subtotal** | **8** |
| Diagram | |
| * Draws correct and fully labelled diagram and clearly linked to discussion. | 2 |
| **Subtotal** | **2** |
| **Total** | **10** |