

**Hale School**

**YEAR 11 SEMESTER 1 EXAMINATION 2019**

**Economics Unit 1 Exam Semester 1 2019**

**Marking Guide**

**Section 1 (24 marks)**

1 C

2 B

3 A

4 B

5 C

6 D

7 D

8 C

9 A

10 D

11 D

12 A

13 C

14 B

15 B

16 C

17 D

18 B

19 A

20 B

21 A

22 C

23 D

24 A

**Section 2 (36 marks)**

**Question 25 (12 marks)**

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| a. i D/S diagram – D & S curves correctly drawn & labelled showing equilibrium at $4 & 4 million  ii. Producers’ revenue = $16 million | 1-2 marks  1 mark |
| b. There has been a decrease in demand. D1 to D2 due to change in preferences (consumers react negatively to the needle scare). Must refer to diagram labels in written work to gain 2 mark  Correctly drawn diagram showing the decrease in demand – equilibrium price & qty both decreasing. | 1-2 marks  1-2 marks |
| c. Diagram showing decrease in supply. S1 to S2. Equilibrium Q and P clearly labelled  There will be a decrease in supply – the S curve will shift left S1 to S2. This will cause equilibrium price to rise & qty to fall. Must refer to diagram labels to gain full marks  Change in producer revenue is uncertain – it depends on price elasticity of demand – it may increase if D is inelastic or decrease if D is elastic | 1-2 marks  1-2 marks  1marks |

**Question 26 (12 marks)**

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| a. Price elasticity of demand measures the responsiveness of qty demanded to a change in price | 1 mark |
| b. P1 = 1000; P2 = $1100; Q1 = 9200; Q2 = 8000  Simple formula: change in Q/Q x P/change in P  1200/9200 x 1000/100 = 1.3  Midpoint formula: 1200/8600 x 1050/100 = 1.465  Note: can use either method | 1-2 marks |
| c. i. Missing values: $9.2 million; $8.8 million (need both)  ii. $1000  iii. Between $800 - $1000: price **inelastic**  Between $1000 - $1200: price **elastic**  When price rises from $800 to $1000, total revenue rises from $8.4m to $9.2m which means that D is inelastic. When price rises from $1000 to $1200, total revenue falls from $9.2 million to $7.8 million which means that D is elastic  Or  Calculate the price elasticity of demand for both price movements  Simple formula: change in Q/Q x P/change in P  Between $800 - $1000: price inelastic at 0.6  Between $1000 - $1200: price elastic at 1.4  Must explain what the coefficients mean to gain full marks | 1 mark  1 mark  1 mark  1 mark  1-2 marks |
| d. Income elasticity measures the responsiveness of demand to a change in income  Income elasticity of demand for smartphones would be **positive**.  An increase in consumer income is likely to lead to an increase in demand for smartphones because they are a normal and superior/luxury good ( must mention both to get the final mark) | 1 mark  1 mark  1 mark |

**Question 27 (12 marks)**

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| a. Define each term:  consumer surplus is the difference between the maximum price a consumer is willing to pay & the actual price they do pay  producer surplus is the difference between the minimum price a producer is willing to receive & the actual price they do receive | 1/2 mark  1/2 mark |
| b. A tariff is a tax on imports designed to give domestic producers a competitive advantage.     * Consumer and producer surplus analysis  |  |  |  | | --- | --- | --- | |  | Before Tariff | After Tariff | | Consumer surplus | a+b+c+d+e+f | a+b | | Producer surplus | g | g+c | | 1-2 marks  1-2 marks |
| c.  i. 30 vehicles  ii. 40 vehicles  iii. 40 vehicles  iv. 30 vehicles  v. Cost of subsidy = $10,000 x 40 = $400,000  vi. Deadweight loss = 1/2b\*h  = 5 \* $10,000 = $50,000 | 0.5 mark  0.5 mark  0.5 mark  0.5 mark  1 mark  1 mark |
| d. Consumer and producer surplus analysis, concluding that market efficiency decreases due to the creation of the deadweight loss.   |  |  |  | | --- | --- | --- | |  | Before subsidy | After subsidy | | Consumer surplus |  | No Change | | Producer surplus |  | DACW | | Government loss |  | Cost of subsidy  Area (DAWB) | | Dead weight loss (loss of total welfare to society |  | Cost of Subsidy (DABW) outweighs increase in producer surplus (DACW)  Creating deadweight loss (ABC) | | 1 mark  1 mark  1 mark |

**SECTION 3 (40 marks) – Answer TWO questions**

**Question 28** **(20 marks)**

*The price of lamb in Australia has skyrocketed amid ongoing drought conditions as well as strong export sales to Asia.*

(a) Use a demand/supply model to explain why lamb prices have increased. Use your model to determine whether the quantity produced will increase or decrease.   (10 marks)

(b) i. With the aid of a model, explain the difference between price elastic and inelastic demand. With reference to the factors affecting elasticity of demand, explain whether the demand for lamb would be price elastic or inelastic. (5 marks)

ii. With the aid of a model, explain the difference between price elastic and inelastic supply. With reference to the factors affecting the elasticity of supply, explain whether the supply for lamb would be price elastic or inelastic. (5 marks)

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| a. Draw a D/S model showing initial equilibrium price & qty  1. Draw a decrease in supply – caused by the drought.  Explain that this change will increase equil price and decrease equil qty  2. Draw an increase in demand – caused by increased sales to Asia. Explain that this change will increase equil price and increase equil. Qty  MOST STUDENTS OVERLOOKED THIS  3. Explain that it is not possible to predict what will happen to the equilibrium qty – it could fall, rise or stay the same depending on the size of the shifts | 1-2 marks  1-2 marks  1-2 marks  1-2 marks  1-2 marks |
| b.i Demand for lamb – use a diagram to illustrate the difference between elastic & inelastic demand. Fully labelled to show changes in P and Q.  Explain using appropriate terminology (e.g “change in quantity demanded is greater in proportion than the price change”).  Is demand (lamb) elastic or inelastic? Could argue either way, depending on reasons: NEED MORE THAN ONE REASON.  e.g. inelastic – necessary (essential food product); for some consumers not a large part of the weekly budget; lamb viewed as different to other meats. OR:  e.g. elastic – close substitutes such as beef, chicken, consumers can switch to cheaper alternatives; for many consumers not a necessity; many consumers now purchase less meat so more elastic  ii. Supply of lamb – use a diagram to illustrate the difference between elastic & inelastic supply. Fully labelled to show changes in P and Q.  Explain using appropriate terminology (e.g “change in quantity supplied is greater in proportion than the price change”).  Supply (lamb) would be inelastic – it is seasonal & takes time to bring to the market, it cannot be manufactured in a few days; it is a perishable product. NEED MORE THAN ONE REASON. | 1-2 marks  1 mark  1-2 marks  OR  1-2 marks  1-2 marks  1 mark  1-2 marks |

**Question 29** **(20 marks)**

(a) The government wants to help poorer consumers by introducing a price ceiling on essential food items. Use a demand/supply model to analyse and explain the effects of the price ceiling on both equity and market efficiency. (12 marks)

(b) Explain why a government would prefer to tax a good with relatively inelastic demand rather than elastic demand. Use a model to support your answer. (8 marks)

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| a. Meaning of price ceiling – a maximum price set below the equilibrium price. It causes qty demanded to increase & qty supplied to decrease, resulting in a shortage. Refer to model for full marks.  Correctly labelled diagram of a price ceiling    Effects on equity – the price ceiling will reduce the price of essential food items which will improve equity, however, there is now a shortage and some consumers may get less food which has a negative effect on equity.  Black market effects.  Effects on market efficiency – the price ceiling reduces market efficiency because it causes a deadweight loss (DWL) – a decrease in total surplus. Explains that the change to CS outweighs change to PS. | 1-4 marks  1-2 marks  1- 2 marks  1 mark  1-3 marks  Refer to model |
| b. Need to explain TWO reasons:  Taxing a good with inelastic demand will raise more tax revenue than taxing a good with elastic demand – this is because qty demanded will not fall by a greater proportion after the tax is applied.  Taxing a good with inelastic demand results in a smaller deadweight loss (DWL) compared with taxing a good with elastic demand – this is because qty will not fall by a greater proportion after the tax is applied.  Correctly labelled diagrams (see below) showing tax applied with inelastic demand – showing tax, change in qty, tax revenue, tax burdens & small DWL (shaded) | 1-2 marks  1-2 marks  1-4 marks |

**Question 30** **(20 marks)**

1. Distinguish between private and club goods (6 marks)
2. Explain, using examples, why the Government provides public goods (4 marks)
3. Explain four policy measures the Government could use to prevent the over use of common property resources such as fish in the ocean. (10 marks)

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| a. **Private goods**   * **rival product** are products where consumption by one person does reduce or prevent   consumption by another person.   * **Excludable products** are those where providers can exclude non-payers from   benefitting from the product.   * Example owning a car.   **Club goods**   * **Excludable products** are those where providers can exclude non-payers from benefitting from the product. * **Non-rival** products are products where consumption by one person does not reduce or prevent consumption by another person. * Examples: Netflix, foxtel | 1-3 marks  Must provide example for full mark  1-3 marks  Must provide example for full mark |
| b. Explain, using examples, why the government provides public goods   * Private market does not meet all our needs. In the private market producers can make a profit because they will be able to exclude non-payers from consuming their product (1). If non-payers cannot be excluded, this removes the incentive for the private sector to produce them. (1) * Provide merit goods – positive externality * Examples include **flood control systems,** some of the **broadcasting services**, **public water supplies**, **street lighting** for roads and motorways, **lighthouse protection** for ships and also **national defence services**. | 1-2 marks  1 mark  1 mark  Must have more than one |
| c. Explain four policy measures the Government could use to prevent the over use of common property resources such as fish in the ocean.   * A common resource is a resource shared by group of people where the ownership of the property rights is not clear. The common resources are available to everyone because nobody owns them. Therefore, non-excludable. * If too many users access a resource, it is in danger of over-exploitation and a ‘**tragedy of the commons’** is created. The additional users become rivals in the use of the resource and an opportunity cost is created * E.g. depletion fish stocks,     **Policy measures**   * **Regulate the use of common property** * e.g. controlling what goes into the water, such as limiting the number of licences issued, gear restrictions, seasonal closures and limits on total fishing time (all of which directly control the total catch of fish); e-monitoring. * or Output controls - controlling what comes out of the water, such as limiting the quantity of fish that can be landed.   **Educate people about the dangers of overuse**   * e.g. in schools department of fisheries offers curriculum on dangers of over fishing. Others include, advertising campaigns, information on department of fisheries website   **Fines**   * e.g. fishing out of season, with illegal equipment will incur large fines. E.g. fines over $10,000 for illegal lobster fishing.   **Sell property rights**   * private ownership of resources will mean property rights will be assigned to the owner, so tragedy of the commons will be avoided e.g. fishing game reserves. | 1 mark  1mark  4 x 2  Cannot all be “regulation examples” – max of 6 marks worth  Must provide detailed examples  PEE |

**Question 31 (20 marks)**

1. Using examples, differentiate between a competitive and non-competitive markets (6 marks)

(b) With the aid of a diagram, explain how market power impacts on the market for groceries. (6 marks)

(c) Select four (4) restrictive trade practices and explain their impact on the efficiency of markets. (8 marks)

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| **Question 31**   1. **Using examples, differentiate between a competitive and non-competitive markets**   2 marks for listing characteristics (0.5 each)  1 mark for example of competitive market  1 mark for example of non-competitive market  **A competitive market is characterised by**   * A large number of buyers and sellers * Firms are price takers * Very similar products * Easy entry into the market   **A Non-competitive market**   * A small number of firms * Product differentiation * Firms are price setters * Entry in to the market is restricted  1. **With the aid of a diagram, explain how market power can impact on the market for groceries.**   s  D  Explanation of diagram x 2   * earn extra profit at the expense of efficiency by setting prices above those that would exist in competitive markets. * Total surplus falls. The CS falls by more than the increase to PS   Specific references to the grocery market x 2   * If there is an oligopoly, the leading firms may engage in collusive behaviour designed to keep market prices higher than under competition * Coles and Woolworths dominate the grocery market in Australia * They do so by achieving economies of scale or considerable cost advantage over other smaller retailers such as IGA * Large advertising budgets      1. **Select four (4) restrictive trade practices and explain their impact on the efficiency of markets.**    1. **practices x 2 marks**  * **Listing trade practice and explaining why it restricts trade (2)** * **Impact on efficiency (1) minus 1 if not discussed** | **Mark**  6  2  2  2  8 |