Write your name below:


_______________________________________________


**Hale School**

**Year**

**11**

**Semester**

**1**

**Examination,**

**2020**

**ECONOMICS**

TIME ALLOWED FOR THIS PAPER

Reading time before commencing: Ten minutes
Working time for paper:  Three hours


#### **MATERIAL REQUIRED/RECOMMENDED FOR THIS PAPER**

###### TO BE PROVIDED BY THE SUPERVISOR

This Question/Answer booklet for Section One and Two

Separate Multiple Choice Answer sheet for Section One.

Standard 8 Page Answer booklets (green) for Section Three.

###### TO BE PROVIDED BY THE CANDIDATE

Standard items: Pens, pencils, eraser or correction fluid, ruler

Special items: A blue/black pen or 2B pencil for the separate Multiple Choice Answer Sheet and a non-programmable calculator approved for use in this examination.

**IMPORTANT NOTE TO CANDIDATES**

No other items may be taken into the examination room.

It is your responsibility to ensure that you do not have any unauthorised notes or other items of a non-personal nature in the examination room. Please check carefully, and if you have any unauthorised material with you, hand it to the supervisor **BEFORE** reading any further.

##### **INSTRUCTIONS TO CANDIDATES**

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1. The rules for the conduct of WACE Examinations are detailed in the booklet *WACE Handbook*. Sitting this examination implies that you agree to abide by these rules.
2. You must be careful to confine your answers to the specific questions asked and to follow any instructions that are specific to a particular question.
3. Supplementary pages for the use of planning/continuing your answer to a question have been provided at the end of this Question/Answer booklet. If you use these pages to continue and answer, indicate at the original answer where the answer is continued i.e. give the page number.

At the end of the examination make sure that your **Name** is on your Examination paper, the separate Answer Booklets and your Multiple Choice Answer Sheet.

***See next page***

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

This section has **24** questions. Answer **all** questions on the separate Multiple-choice answer

sheet provided.

**Suggested working time: 30 minutes**

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1. Which one of these is a function of a competitive market?

(a) Maintaining stable prices between different markets

(b) Eliminating shortages of goods by allowing market prices to fall

(c) Achieving an equitable distribution of scarce resources

(d) Providing incentives for firms to provide goods to make a profit

1. What is consistent with an individual demand curve that slopes down from left to right?

(a) As price falls, a person switches away from substitute products towards the product

(b) As price falls, a person’s willingness and ability to buy the product will decline

(c) As price rises, a person becomes less sensitive to price changes

(d) As price rises, a person’s opportunity cost of purchasing the product falls

1. The effect of a rise in the price of a substitute good Y on the market for good X will be to

(a) Shift the demand curve left and decrease the equilibrium price

(b) Shift the demand curve right and increase the equilibrium price

(c) Shift the supply curve left and increase the equilibrium price

(d)Shift the supply curve right and decrease the equilibrium price

1. Which one of the following would result in a higher quantity consumed and a lower price charged for tomatoes?

(a) A fall in the price of the fertilizer used to grow tomatoes

(b) A hot summer causes consumers to eat more tomato salad

(c) The minimum wage for farm workers is increased

(d)The price of cucumbers rises

1. What will be the impact on the market for oil of the closure of the world’s largest oil field for maintenance work?

(a) A movement down the supply curve

(b) A movement up the demand curve

(c) A shift of the demand curve to the left

(d) A shift of the supply curve to the right

***See next page***

1. A recent news story reported that OPEC is expected to decrease the supply of oil next summer. Summer is traditionally a time of increased demand for oil because of the many families driving and flying to vacation sites. What would be the combined effect of these two activities on the summer market for gasoline?
2. An increase in the equilibrium price and the quantity
3. An increase in the equilibrium price and an unpredictable change in the equilibrium quantity
4. An unpredictable change in both the equilibrium price and the quantity
5. An unpredictable change in the equilibrium price and a decrease in the equilibrium quantity
6. In which situation is the demand for a product said to be price elastic?

(a) A fall in price increases quantity demanded

(b) A fall in price increases consumer expenditure on the product

(c) A rise in price increases consumer expenditure on the product

(d) A rise in price reduces quantity demanded

|  |  |
| --- | --- |
| Price | Quantity demanded |
| $5.00 | 400 |
| $4.50 | 480 |

1. The table shows the demand for chocolates at two different prices. What is the price elasticity of demand when the price falls from $5.00 to $4.50?

(a) Less than 0.5

(b) Between 0.5 and 1

(c) Between 1 and 1.5

(d) Greater than 1.5

1. A product has a price elasticity of supply of 2.0. A change in price causes the quantity supplied to change from 100 units to 120 units. What is the price change?

(a) A fall of 10%

(b) A fall of 40%

(c) A rise of 10%

(d) A rise of 40%

1. If goods X and Y are complements, which of the following could be the value of cross price elasticity of demand?

(a) 0

(b) 1

(c) -1

(d) All of the above could be the value of cross price elasticity of demand

***See next page***

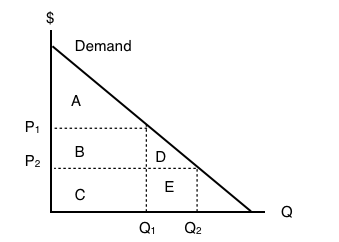
1. What follows if the income elasticity of demand for a good has a value of – 0.2?

(a) When income rises less of the good is bought

(b) When income rises more of the good is bought

(c) When price falls more of the good is bought

(d)When price rises less of the good is bought

1. The following question refers to the diagram below, which illustrates an individual’s demand curve for a good.

If the price of this good falls from P1 to P2, then consumer surplus will \_\_\_\_\_ by areas\_\_\_\_\_

(a) Increase; B+D

(b) Decrease; B+D

(c) Increase; A+B+D

(d) Decrease; A

1. Sarah is selling her used truck. The minimum amount she needs to be paid for the truck is $5,000. She advertises the truck on a used cars website for $8,000, and eventually sells the truck for $6,000. Her surplus is a

(a) Producer surplus that is equal to $1000

(b) Consumer surplus that is equal to $1000

(c) Producer surplus that is equal to $2000

(d) Consumer surplus that is equal to $2000

***See next page***

1. The diagram shows the market for diesel fuel. The demand for diesel fuel decreases from D1 to D2. Which area represents the new producer surplus for companies supplying diesel fuel?

(a) GMNH

(b) JGM

(c) JHN

(d) JNR

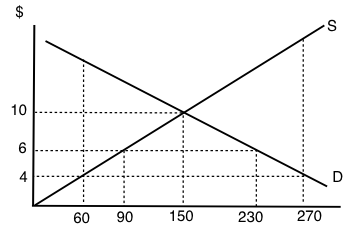
1. If the government removes a price ceiling from a market, then the price paid by buyers will

(a) Increase and the quantity bought and sold in the market will increase

(b) Increase and the quantity bought and sold in the market will decrease

(c) Decrease and the quantity bought and sold in the market will increase

(d) Decrease and the quantity bought and sold in the market will decrease

1. Consider the supply and demand curve diagram below.

If the maximum price set for this good is $6, then:

(a) There is an excess demand (a shortage) equal to 210 units

(b) There is an excess demand (a shortage) equal to 140 units

(c) There is an excess supply (a surplus) equal to 210 units

(d) There is an excess supply (a surplus) equal to 140 units

***See next page***

1. Which of these is an example of market failure?

(a) A general increase in the price of hotel rooms in busy summer seasons

(b) An increase in house prices caused by easier borrowing for house buyers

(c) An increase in travel time caused by a road accident

(d) An increase in unsold goods because of a change in tastes

1. Which situation involving the building industry is **most** likely to be investigated by the ACCC to control restrictive practices?

(a) A builder purchasing a plot of land for development of housing

(b) Groups of suppliers of building materials agreeing to fix prices

(c) Several builders bidding for the same contracts

(d) Several builders using different sources of supply

1. An airline upgrades its services by providing a bigger aircraft. The airline claims it will reduce both travel time and carbon emissions per passenger journey although fares may rise. What is a private cost and an external benefit of this decision?

|  |  |  |
| --- | --- | --- |
|  | *Private cost* | *External benefit* |
| (a) | Less carbon emissions | Reduced travel time |
| (b) | Increased fuel costs | Less carbon emissions |
| (c) | Reduced travel time | Bigger aircraft |
| (d) | Bigger aircraft | Higher fares |

1. In a market where the external costs of production are represented in the supply curve then:

(a) Market price would tend to be higher and the quantity traded higher

(b) Market price would tend to be higher and the quantity traded lower

(c) Market price would tend to be lower and the quantity traded lower

(d) Market price would tend to be lower and quantity traded higher

1. Taxes \_\_\_\_\_\_\_\_\_\_ the price paid by the buyer and \_\_\_\_\_\_\_\_\_\_ the price received by the seller.

(a) Decrease, increase

(b) Decrease, decrease

(c) Increase, increase

(d) Increase, decrease

***See next page***

1. Which of the following correctly describes the equilibrium effects of a per unit subsidy?

(a) Consumer price rises, producer price falls, and quantity increases

(b) Consumer price falls, producer price falls and quantity increases

(c) Consumer price rises, producer price rises, and quantity increases

(d) Consumer price falls, producer price rises, and quantity increases

1. Public goods can be

(a) Provided privately

(b) Provided publicly

(c) Subject to free rider problems

(d) All of the above

1. The WA Fisheries have reported a decline in fish stocks worldwide over the last decade. This is because ocean environments are

(a) Non-excludable and rival in consumption

(b) Excludable but non-rival in consumption

(c) Non-excludable and non-rival in consumption

(d) Excludable but rival in consumption

***End of Section One***

***See next page***

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

This section contains **three (3)** questions. Answer **all** questions. Write your answers in the

spaces provided.

Supplementary pages for the use of planning/continuing your answer to a question have been provided at the end of this Question/Answer booklet. If you use these pages to continue an answer, indicate at the original answer where the answer is continued, i.e. give the page number.

Suggested working time: 70 minutes.

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**Question 25 (12 marks)**

# ***Pharmacies caught price gouging, capitalising on coronavirus panic***

*With the Coronavirus poised to go pandemic, profiteers are exploiting global hysteria and charging consumers hundreds of dollars above normal prices for protective face masks.*

*Panicked buyers desperate to halt the spread of germs has sparked a nationwide face mask shortage.*

1. Define demand. (1 mark)

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1. Draw a diagram below to explain how, initially, a shortage can occur in response to news of the pandemic. (3 marks)

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1. Explain how a competitive market will respond to eliminate an initial shortage. (2 marks)

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1. If consumers expect the future price to increase even more, how will this affect the market?

(2 marks)

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(e) The government wants to stimulate production and reduce prices for face masks. What policy could it introduce to achieve this? Show the impact on a diagram below. Would it increase market efficiency? (4 marks)

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**Question 26 (12 marks)**

***Changes in price elasticity can provide retailers with opportunities to increase revenue.***

# *When price elasticity for different products changes, smart retailers can take advantage by adjusting their prices up or down in order to boost their revenues. A great example is provided by the changes in price elasticity for men’s and women’s sneakers.*

|  |  |  |
| --- | --- | --- |
| **Price Elasticity of Demand** | **2014** | **2019** |
| Men’s sneakers | 1.2 | 1.6 |
| Women’s sneakers | 1.2 | 0.8 |

1. Define price elasticity of demand. (1 mark)

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1. Outline **one** factor affecting the price elasticity of demand for sneakers. (1 mark)

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1. Use the information in the table above for 2019 to complete the following table given a 5 per cent increase in the price of sneakers. (4 marks)

|  |  |  |
| --- | --- | --- |
| ***5% increase in price*** | ***% change Qd*** | ***Effect on total revenue*** |
| Men’s sneakers |  |  |
| Women’s sneakers |  |  |

***See next page***

1. Discuss which customer group would be more willing to pay full price and which group would be more influenced by a discount sale in 2019. (3 marks)

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

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1. Define income elasticity of demand and explain whether income elasticity for sneakers is likely to be positive or negative. (3 marks)

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**Question 27 (12 marks)**

[](https://www.google.com/url?sa=i&url=https%3A%2F%2Fwww.thejakartapost.com%2Fnews%2F2020%2F06%2F10%2Findonesia-needs-at-least-340-million-covid-19-vaccine-ampoules-minister-says.html&psig=AOvVaw3c0ayugovbG0HMC3d8n6iA&ust=1592029432600000&source=images&cd=vfe&ved=0CAIQjRxqFwoTCJCLo_nR--kCFQAAAAAdAAAAABAD)

*The COVID-19 crisis reflects a failure of the global health system. It also reflects well-known failures of the global science, technology, and innovation, including underinvestment in vaccine research.*

*Vaccines are an under-consumed economic good, not only due to the positive externality arising from being vaccinated but also because consumers seem much more willing to pay for treatment than for prevention. Government support for research and development (R&D) is critical, especially when it comes to vaccines.*

1. Define positive consumption externality. (1 mark)

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1. Using examples, distinguish between a private benefit and an external benefit. (2 marks)

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1. Describe why the market for vaccines fails to produce at the socially optimal level of output.

(2 marks)

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1. With the aid of a diagram, explain how the government could internalise the positive consumption externality of vaccinations using a subsidy. (6 marks)

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1. Other than a subsidy, identify **one** policy option that could be effective at increasing the consumption of vaccinations. (1 marks)

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***End of Section Two***

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

This section contains **four (4)** questions. Answer **two (2)** questions. Write your answers in the booklets provided. One extended answer per booklet. Clearly label the question you are answering on the booklets.

Suggested working time: 80 minutes.

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

1. Describe **three** characteristics of a market economy. (6 marks)

1. Explain the difference between competitive and non-competitive markets. (6 marks)
2. Describe **four** barriers to entry into a market. (8 marks)

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

1. With the aid of a diagram outline the difference between product and factor markets.

(4 marks)

1. Define supply and explain the law of supply? (4 marks)
2. Illustrate and explain how each of the following would affect the market supply of a good:

* an increase in the price of the good
* an increase in input prices
* an improvement in technology
* an increase in the expected future price of the good (12 marks)

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**Question 30 (20 marks)**

1. Explain the meaning of price elasticity of supply and discuss **three** determinants of price elasticity of supply. (8 marks)

1. Using diagrams, explain the effect of imposing a tax on a good with elastic demand and a good with inelastic demand. Explain the impact on consumers, producers, and the government. (12 marks)

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**Question 31 (20 marks)**

1. Use a demand/supply model and the concepts of consumer and producer surplus to explain the benefits to both buyers and sellers from participating in a market. (8 marks)
2. Price floors are often used in agricultural markets. Explain the purpose of a price floor and with the aid of a model analyse its effects on consumers, producers and market efficiency. (12 marks)

***End of Section Three***

***SUPPLEMENTARY PAGES***

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