Write your name below:


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**Hale School**

**Year**

**11**

**Semester**

**1**

**Examination,**

**2021**

**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 1: 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. A market is any situation where buyers and sellers

(a) exchange goods, services, or resources

(b) display and sell goods, services, or resources.

(c) can meet to exchange goods and services.

(d) can acquire goods and services to satisfy their needs and wants.

2. The factor market is where households provide firms with

1. labour and receive profit.
2. goods and services and receive income.
3. resources and receive goods and services.
4. resources and receive income.

3. A freely operating price mechanism will result in

(a) an efficient allocation of scarce resources.

(b) stable prices in markets.

(c) greater equality of real incomes due to lower prices.

(d) higher profits and greater government taxation revenue.

4. The Law of Supply suggests that the

(a) quantity produced will expand as price falls.

(b) price will rise when there is an increase in quantity supplied.

(c) quantity supplied will expand when there is a price rise.

(d) price will fall when there is a decrease in quantity supplied.

5. If brands A and B are substitutes then an increase in the price of A will

(a) decrease the demand for B.

(b) increase the demand for A.

(c) increase the demand for B.

(d) not affect the demand for B.

***See next page***

6. The following diagram illustrates the market for primary school level education.

Price

D

D1 S

D

D1

Quantity

The shift in demand from D to D1 is best explained by

(a) a decrease in the number of young families.

(b) an increase in government spending on education.

(c) a decrease the availability of primary school teachers.

(d) an increase in government spending on hospitals rather than schools.

7. If a shortage exists in a market, it can be predicted that

(a) the price will rise.

(b) the price will fall.

(c) producers will decrease supply.

(d) demand will expand.

8. Which of the following would **not** result in a shift to the right of the supply curve?

(a) Cheaper raw materials used in production

(b) Higher wages paid to workers

(c) Higher profits encourage other producers to enter the market.

(d) An improvement in the relevant production technology

9. Advertising is used by competitive firms to

(a) shift the demand curve to the left and make it more elastic.

(b) shift the demand curve to the left and make it more inelastic.

(c) shift the demand curve to the right and make it more elastic.

(d) shift the demand curve to the right and make it more inelastic.

***See next page***

10. What would be the **most likely** reason for total revenue rising when a firm increased the price it charged?

(a) The good was a very expensive luxury item.

(b) Consumers had time to adjust their spending patterns.

(c) The good had very few substitutes.

(d) Firms were easily able to access stocks in warehouses.

11. If the price elasticity of demand for a good is 1.9 then

(a) a reduction in the price will result in a relatively weak demand response.

(b) a price rise will result in an increase in total revenue.

(c) a price rise will result in an increase in supply.

(d) an increase in total revenue is likely to result from a reduction in price.

12. Which of the following best explains the relative increase in the price elasticity of petrol over time.

(a) A general rise in income levels

(b) A decline in the discovery of new major oil fields

(c) An increase in the number of substitutes available to consumers

(d) An increase in price due to new taxes on petrol production

13. Which of the following is an example of price discrimination?

1. Firms charge lower prices for customers with inelastic demand.

(b) Firms charge higher prices for customers with elastic demand.

(c) Firms charge higher prices for customers with inelastic demand.

(d) Firms do not change the price regardless of market conditions.

14. If the price of Tesla shares rises from $650 to $700 and this causes sellers to offer 5% more shares for sale than in the previous day’s trading. We can therefore assume that over this price range supply is

(a) relatively inelastic with coefficient of 0.65

(b) relatively elastic with a coefficient of 1.42

(c) relatively inelastic with a coefficient of 0.1

(d) relatively elastic with a coefficient of 1.54

15. If supply is perfectly inelastic and demand decreases then the price will

(a) fall and the quantity is unchanged.

(b) rise and the quantity is unchanged.

(c) fall and the quantity will rise.

(d) rise and the quantity will fall.

***See next page***

16. Calculate the actual price paid for a good if the customer receives a consumer surplus of $10,

but they were willing to pay $25.

(a) $35

(b) $15

(c) $10

(d) $25

17. The government modifies the effects of the price mechanism because

(a) incorrect signals are sent to producers regarding supply.

(b) planned economies are more efficient in the allocation of scarce resources.

(c) some basic social needs will not be provided.

(d) prices are usually too low for producers to earn a profit.

18. Collusion by firms is anti-competitive behaviour because it involves

(a) smaller firms merging to reduce competition in the market.

(b) agreements on prices reducing competition and forcing consumers to pay higher prices.

(c) a dominant firm under-pricing in order to drive competitors out of the market.

(d) the market being divided by agreements amongst firms to avoid competition.

19. A good that is \_\_\_\_\_\_\_\_\_\_\_\_ and \_\_\_\_\_\_\_\_\_\_\_\_\_ is a \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

(a) rival; excludable; private good

(b) rival; excludable; public good

(c) non-rival; excludable; public good

(d) rival; non-excludable; private good

20. Externalities are otherwise known as the

(a) foreign producers external to the domestic market.

(b) private costs of a firm that are used to pay associated external costs.

(c) government charges levied on producers.

(d) side effects of an economic activity.

21. The ‘Tragedy of the Commons’ occurs because

(a) some resources are non-excludable and rival in consumption.

(b) private goods are excludable and rival.

(c) public goods are non-excludable and non-rival in consumption.

(d) merit goods would not be produced at a reasonable price without government intervention.

***See next page***

22. Imposing a tax on a negative production externality will lead to a

(a) reduction in price and an increase in quantity.

(b) rise in the price and a decrease in quantity.

(c) rise in the price and an increase in quantity.

(d) reduction in price and a decrease in quantity.

23. If the cross elasticity between goods B and A is -2 and the price of good B increases by 5%, then the :

1. goods are substitutes and quantity demanded increases by 5%.
2. goods are complements and the quantity demanded increases by 10%.
3. goods are substitutes and quantity demanded decreases by 2%
4. goods are complements and quantity demanded decreases by 10%

24. A price ceiling is a

(a) maximum price in the market and benefits producers.

(b) minimum price in the market and benefits producers.

(c) maximum price in the market and benefits consumers.

(d) minimum price in the market and benefits consumers.

***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)**

The edited extract below is from an article by Kirsteen Mackay, published online on 25 February 2021.

**Will iron ore prices continue to rise?**

During February, investment bank Credit Suisseforecast the price of iron ore reaching $150 per tonne in 2021. Two weeks later it had exceeded that and today is around $164. That is the highest it’s been in nearly a decade. The reason for the price rise is increasing demand and decreased supply.

Iron ore is a core component in the production of steel and this product is used extensively in shipbuilding, construction, and manufacturing. The world’s biggest iron ore importer is China and it is continuing its massive construction boom. However, it is not just China seeing an increase in demand for steel. The US and EU are also in the market for steel and with emerging markets modernising their infrastructure and striving for a middle-class lifestyle, demand for iron ore continues to soar.

The world’s biggest iron ore exporting countries are Australia and Brazil. However, exports of iron ore from Brazil collapsed after an environmental catastrophe in January 2019, when a mining waste dam burst, killing 270 people.

Higher prices encourage increased production of iron ore. If this happens, then it should offset the supply shortages. Many new iron ore projects are in the pipeline or already underway.

So, will iron ore prices continue to rise? It seems short-term they could, but long-term it will depend on how quickly the supply chains stabilize.

1. Identify from the article, **one** demand and **one** supply factor contributing to the rise in iron ore prices. (2 marks)

Demand factor:

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Supply factor:

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1. Describe and demonstrate the changes in the iron ore market during February. (4 marks)

Diagram:

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1. The article indicates that many new iron ore projects are in the pipeline or already underway to offset the potential shortages in the iron ore market in the future.

Use a demand and supply diagram to explain how this will affect the market for iron ore.

(4 marks)

Diagram:

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

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1. Explain whether the supply of iron ore is likely to be price elastic or inelastic? (2 marks)

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**Question 26 (12 marks)**

**Elasticity in the market for Alcoholic Beverages**

Many new laws and policy discussions are related to the consumption of alcoholic beverages. For example, policies relating to under-age drinking, binge drinking and driving while under the influence of alcohol, have been an important part of the discussion regarding alcohol consumption in Australia. Economists have an important role in this debate. Information on price elasticity of demand and income elasticities, enables policy-makers to predict the impact of new taxes on alcohol consumption. Use the following predicted estimates of elasticity to answer the questions that follow.

|  |  |
| --- | --- |
| Price elasticity of demand for beer | 0.82 |
| Price elasticity of demand for wine | 0.82 |
| Income elasticity of demand for beer | 1.04 |
| Income elasticity of demand for wine | 1.25 |

(a) i. If the wine price rose by 10%, by what percentage would demand for wine fall? (1 mark)

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

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ii. If the quantity of wine demanded rose by 5.4%, as a result of the 10% rise in the price of

beer, calculate the cross elasticity of demand. Show your working below. (2 mark)

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(b) The income elasticity of wine is higher than for beer. Explain what this means and suggest why it is higher for wine compared to beer. (2 marks)

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1. Assume the State Government has decided to impose a tax on the production of beer. Use the data from the table, to assist in demonstrating and discussing the likely impact of the tax on total surplus and the efficiency of the market. (6 marks)

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

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**Question 27 (12 marks)**

The edited extract below is from an article by Julian le Grand, published in Ethics Magazine in 2021.

**Equity versus Efficiency: the elusive trade-off**

The objectives of equity and efficiency appear high on the list of most governments. Indeed, most government initiatives are assessed on their ability to promote equity, fairness and justice as well as ensuring that it does not create inefficiencies.

It is commonly asserted that in most situations there will be a trade-off between these two objectives – that is, the increase of one will decrease the other. For example, a welfare system that reduces poverty, thus promoting greater equity, may also reduce individuals’ incentives to work or save, thus creating inefficiency. Another example concerns universal education, widely thought to promote equality of opportunity and thus equity but criticised by some of reducing educational excellence and therefore efficiency.

Governments also directly interfere in markets by setting price floors to promote producer equity and price ceilings to promote consumer equity. Both actions come at the cost of market efficiency. Some governments have sought to use subsidies to avoid the trade-off between equity and efficiency but there is still a reduction in the efficiency of the market.

(a) Identify from the article **one** example of a Government policy for each of the following:

1. Vertical Equity (1 mark)

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1. Horizontal Equity (1 mark)

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1. The minimum wage is an important government policy. Explain the trade-off that may exist between efficiency and equity, as a result of this policy. (2 marks)

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1. A subsidy is a grant paid to producers by the government, with the purpose of reducing costs and increasing output. With the aid of the diagram below, explain why subsidies to producers are inefficient, even though both consumers and producers benefit in terms of price and quantity. (3 marks)

Qe

Quantity

Price

S (Supply)

A

P2 S1 (Supply + Subsidy)

B C

Pe

E

D F

P1

G

Demand

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

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1. Demonstrate and explain why a price floor will cause market inefficiency. (5 marks)

Diagram:

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***End of Section Two***

***See next page***

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

This section contains **Four (4)** questions. Answer **two (2)** questions. Write your answers in the answer booklets provided and number your answers clearly.

Suggested working time: 80 minutes.

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

(a) Explain, with the use of examples, **five** non-price factors that can affect the level of demand (10 marks)

(b) Explain, using examples, the concepts of consumer and producer surplus. Use a demand/supply model to demonstrate and explain why a market operating at equilibrium is efficient. (10 marks)

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

(a) Using examples and diagrams, explain the difference between negative production externalities and positive consumption externalities. (8 marks)

1. *‘Electric Vehicles provide significant external benefits to the economy’*. Outline any **two** positive consumption externalities and, using a model, explain how a subsidy to consumers may correct the market failure associated with electric vehicles. (8 marks)
2. Other than a subsidy, discuss **two** other options that could be used to encourage consumers to purchase an electric vehicle. (4 marks)

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**Question 30 (20 marks)**

1. Outline **two** reasons why governments provide public goods. (4 marks)
2. Explain the difference between common resources and public goods. (8 marks)
3. Discuss **four** policy options available to the government to deal with the market failure associated with common resources. (8 marks)

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***Question 31: See next page***

**Question 31 (20 marks)**

1. Describe, with the use of Australian examples, **four** features of oligopolistic markets.

(8 marks)

1. Discuss **two** anti-competitive behaviours used by firms and demonstrate with a model how significant market power can influence market efficiency. (8 marks)
2. Outline the **four** main roles of the Australian Competition and Consumer Commission (ACCC) in ensuring greater market efficiency. (4 marks)

***End of Questions***

***See next page***

***Additional working space***

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***End of Paper***