YEAR 11 – UNIT 1 EXAM - 2022

**COMMENTS, MARKING KEYS and**

**SAMPLE ANSWERS**

**STATISTICS**

|  |  |
| --- | --- |
| **OVERALL AVERAGE** | **67%** |
| **SECTION ONE : Multiple Choice : AVERAGE** | **18/24 (75%)** |
| **SECTION TWO : Data Interpretation: AVERAGE** | **7/12 (60%)** |
| **SECTION THREE: Extended Answer: AVERAGE** | **14/20 (69%)** |

**OVERALL COMMENTS**

**What was good**

* Multiple choice was good
* Models were excellent on the whole

**What could be better**

* All the definition work lacked precision and not rigorous enough
* Use of terminology
* Providing answers that fully explain the theory and link to examples
* Short extended answers, poor structure

**WHAT YOU SHOULD DO WITH THIS FEEDBACK**

1. **Go over any content you still haven’t mastered**
2. **Redo questions you didn’t achieve your best in**
3. **Multiple Choice practice to gain mastery (past exams)**
4. **Models, models, models**
5. **Lists, lists, lists**
6. **Practice makes perfect**

**Section 1: Multiple-choice 24% (24 Marks)**

**Average for this section – 15/24 (63%)**

**TIPS FOR ANSWERING MULTIPLE CHOICE**

Multiple-choice questions tend to test your understanding of:

1. definitions – your knowledge of key terms
2. relationships – the linkages between two or more economic concepts
3. facts - knowledge of recent trends in the economy
4. calculations – to undertake a simple calculation based on data provided
5. making a conclusion based on data supplied

**Answer strategy**

1. Read the stem of the question and put it in your own words
2. Work out what it is asking for (e.g. knowledge of a fact or relationship etc.)
3. Eliminate the ones that are incorrect
4. Make a choice then go back over the stem to check it makes sense

**Advice for students**

1. Don’t rush ! Take your time - too often students rush the Multiple Choice section aiming to add to their writing time but make simple mistakes as a result.
2. Often it’s NOT the most obvious answer, if you delve into question properly there may be a better answer
3. You are looking for the most correct answer – often there are more than one correct answers !
4. Easy to get a mark, easy to lose a mark

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**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

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

1. The demand and supply of labour is part of the \_\_\_\_\_\_\_\_\_\_\_\_ market of an economy.
   1. secondary
   2. tertiary
   3. product
   4. factor
2. In a non-competitive market
3. there is little variation in price and a large number of sellers.
4. there are a small number of firms that are price takers.
5. there is little product differentiation and no barriers to entry or exit.
6. there is product differentiation and there are barriers to entry.
7. A market shortage will be cleared if
   1. price rises, demand expands and supply contracts.
   2. price falls, demand expands and supply expands.
   3. price rises, demand contracts and supply expands.
   4. price falls, demand contracts and supply contracts.
8. The law of supply implies that
   1. supply and price have an inverse relationship.
   2. all consumers are rational.
   3. more will be supplied at higher prices.
   4. more will be supplied at lower prices.
9. Which of the following factors would cause the change in the demand for motorcycles shown in the diagram below?

Scatter chart

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* 1. A decrease in the price of motorcycles.
  2. An increase in the price of cars.
  3. An increase in the cost of producing motorcycles.
  4. An increase in the price of helmets.

1. A simultaneous decrease in demand and supply will result in
2. equilibrium quantity rising but a change in price will depend on the relative changes in demand and supply.
3. equilibrium quantity falling but a change in price will depend on the relative changes in demand and supply.
4. equilibrium price and quantity both falling.
5. equilibrium price and quantity both rising.
6. If apple juice producers expect that the price of apple juice is going to increase next month, this would result in
   1. an increase in the demand for apple juice today.
   2. a decrease in the supply of apple juice today.
   3. an increase in the supply of apple juice today.
   4. the equilibrium quantity of apple juice will increase today.
7. When the demand for a good is price elastic
   1. an increase in price will increase total revenue.
   2. a decrease in price will decrease total revenue.
   3. a decrease in price will increase total revenue
   4. a change in price does not cause a change total revenue.
8. Which of the following products would have the lowest price elasticity of demand?
9. Petrol
10. Apple AirPods
11. Take-away meals
12. An overseas holiday
13. When a baker decreases the selling price of her cakes by 15%, the quantity demanded of cakes increases by 7.5%. The cakes therefore have a price elasticity of demand of \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.
    1. 0.5
    2. 0.75
    3. 1
    4. 2
14. An inferior good has a
    1. positive income elasticity.
    2. positive cross price elasticity.
    3. negative income elasticity.
    4. negative cross price elasticity.
15. Lindt chocolates and Cadbury chocolates are substitutes so the \_\_\_\_\_\_\_\_\_\_\_\_ elasticity of demand is \_\_\_\_\_\_\_\_\_\_\_\_\_.
    1. cross: negative
    2. cross; positive
    3. income; negative
    4. income; positive
16. If the demand of a product is perfectly inelastic, shifts in supply will lead to
    1. changes in quantity but no change in price.
    2. changes in quantity and changes in price.
    3. changes in price but no change in quantity.
    4. none of the above.
17. An adventure park raises its ticket prices from $25 to $30 in order to raise revenue. The park’s management is assuming that the absolute value of the price elasticity of demand for park tickets is
    1. equal to 1.
    2. less than 1.
    3. more than 1.
    4. equal to infinity.
18. The minimum price the Tesla car dealer would like to sell her car for is $75,000. Oliver, the shopper, has decided that he would pay no more than $82,000 for the car. After almost one hour of negotiations with the saleswoman, Oliver ends up purchasing the car for $79,000. Oliver has achieved a consumer surplus of \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ and the car dealer’s surplus is \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.
    1. $3,000; $4000
    2. $3,000; $6000
    3. $6,000; $3000
    4. $4,000; $3000

Use the diagram below to answer questions 16 and 17.

Chart, line chart

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1. At which price should the government impose a price floor?
   1. $5
   2. $10
   3. $20
   4. $30
2. The change in consumer spending following the imposition of a price floor would be \_\_\_\_\_\_\_\_\_\_\_\_\_.
   1. $10 000
   2. $90 000
   3. $100 000
   4. $110 000
3. The concept of deadweight loss refers to
   1. an inefficiency that arises due to an unavoidable decrease in total surplus.
   2. an inefficiency that arises due to government’s lack of intervention.
   3. the difference between consumer surplus and producer surplus.
   4. the excess amount that consumers are willing to pay over the actual price of a product.
4. Estimates of income elasticity of demand for selected soft drinks for the period 2019– 2021:

|  |  |
| --- | --- |
| Fizzy drinks | - 0.24 |
| Fruit drinks | + 0.16 |
| Bottled water | + 1.05 |

From the data in the table it may be deduced that:

1. An increase in consumer income will lead to a more than proportionate increase in demand for fruit drinks.
2. A decrease in consumer income will cause a fall in the demand for all of the drinks.
3. An increase in consumer income will lead to a decrease in demand for fizzy drinks.
4. A decrease in consumer income will lead to a less than proportionate decrease in demand for bottled water.
5. An aim of the Australian Competition and Consumer Commission is to
6. put a ban all monopoly firms.
7. promote the use of restrictive trade practices.
8. promote competition and fair trading.
9. reduce the extent of product differentiation.
10. One method to correct the ‘tragedy of the commons’ is to
    1. assign property rights for the use of this resource.
    2. allow the government to produce the resource.
    3. allocate a subsidy to the use of the resource.
    4. increase competition in the market using deregulation.
11. In a competitive market, equilibrium price will fall when
12. Demand and supply both increase
13. Demand remains constant and supply decreases
14. Supply increases proportionally more than demand increases
15. Supply remains constant and there is an expansion in demand
16. What type of equity is the government trying to achieve if everyone is provided with equal opportunity to succeed and earn a high income?
    1. Horizontal
    2. Income
    3. National
    4. Vertical
17. Which of the following strategies would be effective in reducing consumption of plastic straws?

(i) Placing a tax on plastics.

(ii) Providing subsidy to plastic straw producers

(iii) Banning plastic straws

(iv) Create awareness through media

* + 1. i, iii, and iv
    2. ii, iii and iv
    3. i, ii and iii
    4. all of the above

**End of Section One**

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

**Average for this section – 7/12 (60%)**

**TIPS FOR ANSWERING DATA INTERPRETATION QUESTIONS**

**Tips for students**

* Answer the questions in the space provided in the examination paper.
* Try not to exceed that space.
* Always try and use the data, this is what data interpretation is all about
* Some short-answer questions will test a student’s memory (factual questions), while others will test your ability to apply concepts (interpretive questions).
* The answer may require one word, a phrase, a sentence or a paragraph. Part (a) usually refers to a table, graph, economic model or excerpt from an article, and thus tests your ‘economic skills’. Parts b), c) and d) require short, direct answers, the extent of the response suggested by
  + the amount of space allowed for the response, and
  + the number of marks (weighting) of the question

**Understanding, interpreting and applying information in tables**

* Tables are commonly found in economics to organise and arrange data so that it
  + can be more easily understood. They have been used as stimulus in extended
  + response questions in the ATAR examination. It is a critical skill to be able to
  + understand, interpret and apply the data that is presented in the table in your
  + response.
* **This is an effective three step process to incorporate information from the table in your** **response.**
* **Understand the table** - Determine how the table is set up. The title of the table will inform you of what the table is representing and the column and row headings will tell you what variables are being used and the units of measurement.
* **Interpret the table** - It is now necessary to look for trends in the data and draw conclusions from the patterns that you identify.
* **Apply your interpretations in your response** - The information you have gained now needs to be incorporated as supporting evidence for the appropriate main points in your extended response.

**Question 25**  (12 marks)

**Average = 8/12 (68%)**

1. Identify **one non price demand** and **one non price supply** reason for the petrol price fluctuations, according to the article. (1 mark)

|  |  |
| --- | --- |
| **Description** | **Mark** |
| For non price demand reason |  |
| Any of the following   * Pandemic, * People’s changing behaviour due to lockdowns *(must state lockdowns)* | 0.5 |
| **Subtotal** | **0.5** |
| For non price supply reason |  |
| Any of the following:   * International conflict * Supply chain issues * Closure of some Australian oil refineries | 0.5 |
| **Subtotal** | **0.5** |
| **TOTAL** | **1** |

**Comments**

* Question clearly states, ‘according to the article’ but many students just referring to theoretical non price factors (no marks).
* Data interpretation often refers you to the data. You should always try and use the data/quote from the data

Graphical user interface, text, application, email

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**Good Answer**

1. Use a demand/supply model to describe the effects of the ‘closure of some oil refineries’ in the petrol market. (4 marks)

|  |  |
| --- | --- |
| **Description** | **Mark** |
| **Model - 2 marks** |  |
| Correct labelling | 1 |
| Supply curve shifting left | 1 |
| **Subtotal** | **2** |
| **Explanation – 4 steps, ½ mark for each step** |  |
| Description of 4 step explanation in correct order | 2 |
| *If steps are out of order or incomplete – less ½ mark* |  |
| **Subtotal** | **2** |
| Steps are as follows, in correct order:   * Supply shifts to the left due to closure of oil refineries, meaning less oil. S curve shifts left * Temporary shortage (Qd > Qs) * Equilibrium price increases (pe- p1), * Demand contracts, supply expands, new equilibrium (P2,Q2) |  |
| **TOTAL** | **4** |

**Comments**

Model

* Must clearly label your models – D and S curves, axes, Q and P changes.
* Also show direction of movement in curves to make your model clearer
* $ for Y axis was accepted but this is not strictly correct. Y axis should be labelled ‘price’

Explanation

* 4 steps must be in order otherwise the explanation does not make sense and you cannot earn full marks
* Many students forgetting some steps
  + Contraction and expansion in D and S following the price change
  + Remember, incr /decr in D and S refers to a non price factor and shifts the whole curve AND expansion /contraction in qty S and qty D refers to shift along the curve and is caused from a price change
  + TIP - AIM FOR UNDERSTANDING RATHER THAN WROTE LEARNING. In Economics a lot of explanations involve an understanding of cause 🡪 effect 🡪 cause 🡪 effect. This will ensure you get the order of your steps correct. *With D and S models, non price factor 🡪 shortage/surplus 🡪 price change 🡪 contr/expans D and S 🡪 new eq’n*

**Good Answer**

Diagram, engineering drawing

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1. For each of the following situations, draw a demand/supply model and outline what would occur in the petrol market.
2. Changing consumer behaviour due to the enforced lockdowns. (4 marks)

|  |  |
| --- | --- |
| **Description** | **Mark** |
| **Model - 2 marks** |  |
| Correct labelling | 1 |
| Demand curve shifting left | 1 |
| **Subtotal** | **2** |
| **Explanation – 4 steps, ½ mark for each step** |  |
| Description of 4 step explanation in correct order | 2 |
| *If steps are out of order or incomplete - less ½ mark* |  |
| **Subtotal** | **2** |
| Steps are as follows, in correct order :   * Demand for petrol decreases as consumers unable to drive due to lockdowns. As petrol is a complementary good to cars, so demand for petrol decreases. D curve shifts left * Temporary surplus (Qs > Qd) * Equilibrium price decreases (pe- p1), * Demand expands, supply contracts, new equilibrium (P2,Q2)   *Note: If student has interpreted ‘enforced lockdowns’ as an increase in demand for petrol then 1 mark for model and 0 marks for explanation.* |  |
| **TOTAL** | **4** |

**Comments**

* Enforced lockdowns means people are locked down and not allowed to leave their houses. It does not mean that ‘lockdowns lifted’. Therefore, demand has decreased
* Students who showed Demand rising, received 1 mark for model and 0 marks for explanation
* Ensure you fully explain the link between the scenario and how it affects D in the petrol market (not D the petrol car market). With this scenario you needed to explain the lockdowns led to less car driving therefore less Demand for petrol as petrol cars and petrol are complementary goods.
* Many students just stating that demand has decreased but unclear on what they were referring to
* 4 steps need to be explained in order

**Good Answer**

Diagram

Description automatically generated

1. New technology is used in oil refineries and the price of electric vehicles decreases.

(3 marks)

|  |  |
| --- | --- |
| **Description** | **Mark** |
| **Model - 1 mark** |  |
| Correctly labelled model showing decrease in demand AND increase in supply | 1 |
| **Subtotal** | **1** |
| **Description – 2 marks** |  |
| New technology causes an **increase in the supply of petrol** *(as costs of production fall*) AND price of EV falling causes a **decrease in demand for petrol** *(substitute goods, fall in price of EV 🡪 decr D for petrol cars)*  *½ marks if don’t provide some explanation of why S increases and/or D decreases*  *½ marks if only explain D or S in full* | 1 |
| Price falls BUT effect on quantity unknown, depends on the size of the changes.  *½ marks if only explain price falling* | 1 |
| **Subtotal** | **2** |
| **TOTAL** | **3** |

**Comments**

* Question is about the petrol not the EV market. Students required to explain why D and S curves for petrol shift.
* If students just stated the shifts without any explanation of why they shift then ½ marks
* Some students missed the double shift
* Need to explain the impact on price and quantity i.e. price falls and qty indeterminate

Diagram

Description automatically generated**Good Answer**

**Question 26 (12 marks)**

**Average – 6 / 12 (50%)**

1. (i) Calculate the price elasticity of supply watermelons if the price increases from $6 to $9. Remember to show your working. (1 mark)

|  |  |
| --- | --- |
| **Description** | **Mark** |
| x  = x  Es = 0.4 | 1 |
| **TOTAL** | **1** |

(ii) Circle the correct response: (1 mark)

|  |  |
| --- | --- |
| **Description** | **Mark** |
| Price inelastic | 1 |
| **TOTAL** | **1** |

**Comments**

* Some students getting the equation confused: price and quantity the wrong way around, Qty S and change in Qty S wrong way around
* Many students not able to equate coefficient to type of elasticity (0<1 inelastic, >1 elastic)
* Follow through marks were given

1. Explain **two** determinants of the price elasticity of supply of watermelons. (4 marks)

|  |  |
| --- | --- |
| **Description** | **Mark** |
| **For each determinant – 2 marks each** |  |
| Discusses factor effecting Es in context of watermelon market | 1 |
| Provides an explanation of inelastic Es | 1 |
|  | **2** |
| Answers could include:   * **Time** – In the very short run, it is difficult for watermelon producers to respond quickly and change output. This may be due to growing times involved, equipment needed for watermelon farming etc. Therefore, producers cannot respond quickly to a price change = inelastic Es * **Nature of industry** – refers to the ability of producers to adjust production. Watermelon growers require specific resources such as soil, weather conditions, seasons etc. If producers are unable to obtain resources then producers cannot respond quickly to a price change = inelastic Es. * **Growing time** – watermelon takes time to grow. If the price for watermelons increases the fact that it takes time to grow the melons means producers are unable to respond quickly to a price change = inelastic Es * **Storability** – watermelons cannot be stored for long periods as they will perish, so producers are unable to respond quickly to price changes = inelastic Es | |
| **TOTAL** | **4** |

**Comments**

* Superficial, minimalistic answers that often didn’t discuss the watermelon market or inelastic Es
* Always start with a definition – define Es
* Law of Supply and Es are different, many students getting this confused. Students who discussed price rising 🡪 rise in S are only discussing the law of supply which is incorrect. Es is the responsiveness of S to a change in price
* We measure the responsiveness as the speed with which producers can respond
* A lot of students mixing up factors affecting S and factors affecting Es

**Good Answer**

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1. Using the midpoint method, calculate the price elasticity of demand of watermelons if the price increases from $7 to $10. Remember to show your working. (1 mark)

|  |  |
| --- | --- |
| **Description** | **Mark** |
| Working  x  = x  Ed = 3.4 | 1 |
| **TOTAL** | **1** |

(ii) Circle the correct response: (1 mark)

|  |  |
| --- | --- |
| **Description** | **Mark** |
| Price elastic | 1 |
| **TOTAL** | **1** |

**Comments**

* Many students calculating this elasticity coefficient using point method not midpoint method
* Read the questions carefully and highlight key parts so you don’t miss important instructions
* Follow through marks were given

1. Explain **two** determinants of the price elasticity of demand of watermelons. (4 marks)

|  |  |
| --- | --- |
| **Description** | **Mark** |
| **For each determinant –2 marks** |  |
| Discusses factor effecting Ed in context of the watermelon market | 1 |
| Provides an explanation of what elastic Ed means | 1 |
|  | **2** |
| Answers could include:   * **Availability of substitutes** – large number of substitutes for watermelon such as rockmelon, honey dew melon etc. A rise in price of watermelon will have a greater than proportionate fall in Qty D for watermelon therefore elastic * **Necessity vs luxury** – Watermelon considered a luxury good not a necessity as not needed for survival. A rise in price of watermelon would have a greater than proportionate fall in Qty D, therefore elastic * **Proportion of income spent** – watermelons are relative expensive so take up a large proportion of income. A rise in price of watermelon would see a greater than proportionate fall in Qty D therefore elastic * **Time** – refers to peoples changing consumer behaviour over time. With watermelons people will be able to substitute away from watermelon to other fruits and melon goods. A sustained rise in price of watermelons would see a greater than proportionate fall in Qty D therefore elastic * **Whole market v’s brand** – the whole market refers to fruit (or melon) which may be considered a necessity so have inelastic demand. Watermelon is a type of fruit with many other fruit substitutes. If the price of watermelon rises, there would be a greater than proportionate change in Qty D therefore elastic | |
| **TOTAL** | **4** |

**Comments**

* Very poorly done
* Many students discussing the Law of D not Ed (stating price rises, demand decreases).
* Ed refers to the responsiveness of D to a change in price. Many just stating that price rises 🡪 demand falls.
* The ‘availability of substitutes’ was done badly. This point is not just that consumers change to substitutes when the price of watermelons rises, it’s the responsiveness of the change in D for watermelons.
* Many students mixing up factors affecting D and factors affecting Ed

Text, letter

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**Good Answer**

**Question 27 (12 marks)**

**Average – 7/12 (58%)**

1. State and define the type of price control which is mentioned in the article above.

(2 marks)

|  |  |
| --- | --- |
| **Description** | **Mark** |
| Price ceiling | 1 |
| Definition - Price ceiling refers to a government imposed, maximum legislated price that sellers are able to charge in a market. *(also accepted maximum price sellers can charge which is below equilibrium)* | 1 |
| **TOTAL** | **1** |

1. Identify the year that the price control was passed. (1 mark)

|  |  |
| --- | --- |
| **Description** | **Mark** |
| 2021 | 1 |
| **TOTAL** | **1** |

**Comments**

* Definitions of price ceilings were lacking in sufficient detail – important to state they are legislated, government imposed. There was a hint in the article ‘*government just passed sweeping price controls/ right to housing law/passed legislature last October’*
* Also accepted maximum price below equilibrium.
* Expand your definitions to ensure you are covered.
* The year price control was passed was 2021. Article was in 2022 and article states ‘*last October’*

**Good Answer**

A picture containing letter

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1. Outline **one** negative consequence of the price control mentioned in the article.

(1 mark)

|  |  |
| --- | --- |
| **Description** | **Mark** |
| Provides a brief explanation of a negative consequence of a price ceiling. | 1 |
| **Any of the following:**   * New renters may be unable to get into the rental market * May lead to black markets * Lack of incentive to renovate property * Landlords may struggle to run viable business * Accepted ‘inefficient markets’ but this wasn’t in the article so ½ marks | |
| **TOTAL** | **1** |

**Comments**

* Answers for this response were in the article – USE THE DATA

**Good Answer**

Text, letter

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1. Describe **one** reason why the government passed the price control in the rental market in Spain. (2 marks)

|  |  |
| --- | --- |
| **Description** | **Mark** |
| Provides a well discussed and valid reason why a government would impose a price ceiling | 1 |
| Uses the concept of equity in the response | 1 |
|  | 2 |
| **Answers could include :**   * Consumers may have lobbied the government to decrease the market price and so a maximum or ceiling price is set somewhere below the market clearing price. * To stop producers charging excessive prices for housing rentals particularly in areas that were considered ‘stressed markets’ * To manage scarce resources during difficult economic times e.g. in a rental crisis * To support low income earners | |
| **TOTAL** | **2** |

**Comments**

* Very few students mentioning equity or discussing the concept of equity. This is critical when essential price controls.

**Good Answer**

Text, letter

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1. Use a demand and supply model to demonstrate and discuss the impact of the price control in the rental market in Spain. (6 marks)

|  |  |
| --- | --- |
| **Description** | **Mark** |
| Model |  |
| Correctly labelled model | 1 |
| Price Ceiling below equilibrium | 1 |
| **Sub total** | **2** |
| Discussion |  |
| Explanation of effects using the model – 1 mark per point | 4 |
| **Sub total** | **4** |
| **Answers must include:**   * *Student must link explanation of effect to the model* * Price is decreased from equilibrium to below equilibrium (Pc), Qty D rises, Qty S falls, shortage created * Consumer surplus has increased * Producer surplus has decreased * Total surplus has decreased, Deadweight loss occurs (this implies a loss of efficiency/ loss of welfare to society | |
| **TOTAL** | **6** |

**Comments**

* Responses were lacking in detail – some didn’t explain affect on CS, PS, TS or DWL; some didn’t explain the shortage created from price control
* Model and explanation should be totally integrated. Refer to the model in your explanation of the effects.
* Students should be labelling areas of the model and DWL to support explanation.
* Important to refer to situation before the price ceiling and after the price ceiling e.g. CS rises from x to y, PS falls from x to y and/or give reasons why CS rises and PS falls

Diagram

Description automatically generated**Good Answer**

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

**Question 28**

1. Using examples, explain how cross elasticity of demand can be used to distinguish between complementary and substitute goods. (6 marks)

|  |  |
| --- | --- |
| Cross Price Elasticity of Demand |  |
| Discussion of cross price elasticity of demand with the use of examples | 2 |
| Explanation of complementary goods with examples | 2 |
| Explanation of substitute goods with examples | 2 |
| **Total** | **6** |
| Answers for each should include:   * Definition of cross elasticity – 1 mark * Formula – 1 mark * Define complementary goods and examples – 1 mark * Discussion of coefficient (+) – 1 mark (relate to examples and definition) * Define substitute goods and examples – 1 mark * Discussion of coefficient (-) – 1 mark (relate to examples and definition) |  |

**Comments**

* Precise definitions are important. They should be economic in nature and learnt. They should not be ‘made up’ using inappropriate language
* Many students did not state do the formulae or apply coefficients .
* Examples Examples, examples, examples – make you the your theory real.

1. Using examples, explain how income elasticity of demand can be used to distinguish between normal and inferior goods (6 marks)

|  |  |
| --- | --- |
| **Description** | **Mark** |
| Income Elasticity of Demand |  |
| Discussion of income elasticity of demand with the use of examples | 2 |
| Explanation of normal goods with examples | 2 |
| Explanation of inferior goods with examples | 2 |
| Answers for each should include:   * Definition of income elasticity – 1 mark * Formula – 1 mark * Explanation of normal goods and give examples – 1 mark * Explanation of coefficient > 0 positive – (relate to example and definition) 1 mark * Explanation of inferior goods and examples – 1 mark * Explanation of coefficient < 0 negative(relate to example and definition) 1 mark |  |
| **Total** | **6** |

**Comments**

* Precise definitions are important. They should be economic in nature and learnt. They should not be ‘made up’ using inappropriate language
* Many students did not state the formulae or apply coefficients
* Examples, examples, examples – make your theory real.

1. Using the concepts of ‘rivalry’ and ‘excludability’ and examples, describe the following types of goods (8 marks)

* Private goods
* Public goods
* Common property goods
* Club goods

|  |  |
| --- | --- |
| **Description** | **Mark** |
| Description of each of the four types of goods with examples for each | **2** |
| Description of each type of good with examples for each | **1** |
| **Subtotal** | **4 x 2** |
| Full marks will only be given if examples are used to explain rival in consumption and the exclusion principle). A range of examples should be given. Answers could include:  Private good – rival and excludable (e.g car, phone – apply examples to concept)  Club good – non-rivalrous and excludable (e.g Netflix, Foxtel) – apply examples to concept  Common property good – rivalrous and non-excludable (Atmosphere, fish in the ocean – apply examples to concepts.  Public good – non-rivalrous and non-excludable (lighthouse, footpath – apply examples to concepts  Answers should include:  A good is said to be rival in consumption if one person’s consumption decreases the consumption of others.  The exclusion principle means that those consumers who are willing & able to purchase a product gain exclusive rights of ownership & the benefits that can be derived by that ownership. |  |
| **Total** | **8** |

**Comments**

* Generally well done
* Depth in explanation – look at your work. This part should have taken 16 m. At least a page of work.
* Example should be applied to concepts. For example, how does fishing illustrate the concepts of rival in in consumption and non-excludability,

**Good Answer**



**Question 30**

1. Using models, show and explain the difference between a negative production externality and a positive consumption externality. (12 marks)

|  |  |
| --- | --- |
| **Externalities occur outside of the market** i.e. they affect people not directly involved in the production and/or consumption of a good or service. They are also known as **spill-over effects**, bystander effects or 3rd party effects.  A negative externality occurs when there is a negative side-effect of market activity on 3rd parties. (give examples)  **Negative production externalities**  **Civil aviation market**  **A picture containing chart  Description automatically generated**   * The market fails because it overproduces **SP**, more of the product is bought than the amount that is efficient. (PE QE), and external cost is not considered) * **The external cost of production is difference between private costs (Sp) (give examples) and social costs (Ss - give examples).** * Too much of the product is produced. Since social cost is not considered, a **deadweight welfare** loss results. (SC >PC)   **Positive Consumption Externalities**   * A positive externality is a benefit that is enjoyed by a third-party as a result of an economic transaction (give an example) * Goods which produce positive externalities goods are under-consumed because they are under provided by the market.   **A Positive Consumption Externality**    **Vaccination Market**  Graphical user interface, application, Word  Description automatically generated   * The supply curve represents the cost of a good (e.g vaccination, gym membership), while the demand curve (Dp) represents the private benefits of consumption (give examples). Private benefits are at Pe, Qe, at this point the external benefits (give examples) have not been considered. * To determine the optimal output we must consider all benefits of consumption – private and external. The optimal price and quantity is Po an Qo. * The market fails because it underproduces, the market quantity is less than the optimal quantity. This results in a deadweight loss. | (12 marks)    1 mark    2 marks  Must label and have title.  Must be referred to in discussion  1-3 marks  1 mark  2 marks  Can use other markets as context  1-3 marks |

**Comments**

* Many used poor structure. Starting their responses with models, rather than defining key terms.
* This question required students to explain the externalities – NOT the internalising of them.
* Some students defined, drew a model, but stopped there. No explanation of the model?
* Very poor on explaining the difference between Private costs and social costs – give examples!
* Vey poor on explaining the difference between Private benefits and social benefits – give examples!
* Many students didn’t give examples of markets in their definitions or in the models themselves.

**Good Answer**

Diagram

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1. Use a model to show and explain how a subsidy would correct the market failure associated with a positive consumption externality. (8 marks)

|  |  |
| --- | --- |
| Machine generated alternative text: price  subsidy  00  Dp  Output Definition - a subsidy is a grant paid to producers with the purpose of reducing costs and increasing output, thus making a product cheaper for consumers. In this case a subsidy could be paid directly to consumers to lower the purchase price of the good.   * To internalise a positive externality the government can pay a subsidy to consumers **equal to the external benefit**. (the difference between the Dp and Ds) * The subsidy is equal to P2 Po. The subsidy shifts the **consumer's private demand curve (Dp) to the social demand curve (Ds) – give examples** * Producers receive **Po but the consumers only pay P2 (after the subsidy) and the quantity is increased to Qo.** * The subsidy has reduced the price and increased the quantity consumed.   External benefits – must give examples  ***Must reference the model in answer for full marks*** | 1 mark  2 marks  1- 5 marks |

**Comments**

* Many forgot to define subsidy, or at least explain how it works.
* Models poor in terms of demonstrating the subsidy (i.e just shifting the demand curve)
* Poor on explanation of external benefit – use an actual market

**Good Answer**

Diagram

Description automatically generated with low confidence

**Question 29**

1. Explain the differences between a competitive and an imperfect market. (6 marks)

|  |  |
| --- | --- |
| Explain the difference between competitive and non-competitive markets.  **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 * Efficient markets where competition improves allocation of resources   Must give examples of perfect competition and mononopolistic markets and businesses.  **A Non-competitive market**   * A small number of firms * Product differentiation * Firms are price setters * Entry into the market is restricted * Inefficient markets were resource allocation may be inefficient   Must give examples of oligopolist and mononopoly markets and businesses | (6 marks)  Any 4 for ½ mark each -  2 marks  1 mark  Any 4 for ½ mark each - 2 marks  1 mark |

**Comments**

* Poor interpretation of question. Question are imbedded in the syllabus. Go read your booklet – 1.3. The distinction between competitive and non-competitive markets
* Once again – use of examples was not as extensive as it should have been. Much more scope here to get depth into your work
* Learn theory using lists where appropriate.

1. Define the concept of market power and use a model to explain how market power can influence market efficiency. (8 marks)

|  |  |
| --- | --- |
| Market Power is defined as the ability of a firm to influence price or varying output.  Examples: discussion on the lack of competition in the banking or supermarket industry (oligopolies)  Use D/S model to show how a firm with market power (e.g. monopoly) raises and or reducing output. Diagram must have PS, CS, TS and DWL labeled  **A close up of a logo  Description automatically generated**   * A monopoly for example, can increase price in a market by restricting output. Discussion of QePe and Q1P1 * Consumer surplus decreases (abc – a) * Producer surplus increases (de – bd) * Net decrease in total surplus – a DWL. Include one of the following   + - * The gains to producers is outweighed by the loss to consumers.       * Net loss of welfare to society       * Inefficient use or resources | 1 mark  1 mark  2 marks  4 marks |

**Comments**

* Diagram generally done well. Make sure diagrams are drawn large to ensure no confusion between areas.
* Use letters rather than shading to show the various surplus areas. This will allow you to more appropriately refer to changes in the various surplus areas. Shading does not allow this.
* The question specifically refers to ‘market efficiency’. This means you should allocate time on this concept. Explain what DWL actually is referring to – see the key

1. Explain the role and purpose of the Australian Competition and Consumer Commission (ACCC) in preventing business practices that reduce competition. (6 marks)

|  |  |
| --- | --- |
| Explanation of ACC - purpose   * Primary responsibility is to ensure that individuals and businesses comply with Australian competition, fair trading, and consumer protection laws * In particular the Competition and Consumer Act 2010. * Independent body   Four key roles/goals of ACCC – and examples   * Maintain and promote competition and remedy market failure * Protect the interests and safety of consumers and support fair trading in markets * Promote the economically efficient operation of, use of and investment in monopoly infrastructure * Increase our engagement with the broad range of groups affected by what we do.   Discussion of any 3 anti-competitive behaviours. Must include examples for full explanations. Link to roles where posible   * Collusion * Resale Price Maintenance * Collusive tendering * Predatory pricing * Exclusive dealing * Collusive Bidding * Any others | any 2 and explanation  for 1 marks  4 x ½ for 2 marks  Any 3 for 3 marks |

**Comments**

* This question has three distinct parts.
  + The ACCC and its purpose
  + Roles/Goals
  + Business practices that reduce competition - Anti-competitive practices
* Many questions are written this way. Get in the habit of breaking up the question before you start so you tackle the various parts.
* Examples crucial here again.

**Good Answer**



**Question 31**

1. Explain the meaning of the term ‘market’ and describe the difference between a factor and a product market (6 marks)

|  |  |
| --- | --- |
| A market exists if there is an exchange between buyers and sellers.  The price system is an organizing agent in a market economy. It allocates resources goods and services on the basis of the free movement of price.  **Describe the difference between product and factor markets**  See the source image   * **product markets** refer to the **market** for the final **goods** themselves (such as cars, clothes etc). Firms are sellers in the product market and HH are buyers * **Factor markets** are concerned with **markets** for **factors of production** or inputs in a production process. (land, labour, capital or enterprise). Households are sellers in the factor market and firms are buyers | 1 mark  1 mark  May use  Diagram?  2 marks  2 marks |

**Comments**

* Question was done well.
* Many overlooked the statement that price is the organising system in a market.
* Many did not give examples when explaining the product and factor markets.

**Good Answer**

A piece of paper with writing

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

|  |  |
| --- | --- |
| **Private property** Labour resources, natural resources, capital resources (e.g., equipment and buildings), and the goods and services produced in the economy are largely owned by private individuals and private institutions rather than by government. This private ownership combined with the freedom to negotiate legally binding contracts permits people, within very broad limits, to obtain and use resources as they choose.  **Freedom of enterprise and choice** Private entrepreneurs are free to obtain and organize resources in the production of goods and services and to sell them in markets of their choices. Consumers are at liberty to buy that collection of goods and services that best satisfies their economic wants. Workers are free to seek any jobs for which they are qualified.    **Self-interest**   The "Invisible Hand" that is the driving force in a market economy is each individual promoting his or her self-interest. Consumers aim to get the greatest satisfaction from their budgets; entrepreneurs try to achieve the highest profits for their firms; workers want the highest possible wages and salaries; and owners of property resources attempt to get the highest possible prices from the rent and sale of their resources.  **Competition** Economic rivalry means that buyers and sellers are free to enter or leave any market and that there are buyers and sellers acting independently in the marketplace. It is competition, not government regulation, that diffuses economic power and limits the potential abuse of that power by one economic unit against another as each attempts to further its own self-interest.  **System of market and prices**  Markets are the basic coordinating mechanisms in our type of economy, not central planning by government. A market brings buyers and sellers of a particular good or service into contact with one another. The preferences of sellers and buyers are registered on the supply and demand sides of various markets, and the outcome of these choices is a system of product and resource prices. These prices are guideposts on which participants in markets make and revise their free choices in furthering their self-interests.  **Limited government**  A competitive market economy promotes the efficient use of its resources. As a self-regulating and self-adjusting economy, no significant economic role for government is necessary. However, a number of limitations and undesirable outcomes associated with the market system result in an active, but limited economic role for government. | **Any Three**  **in detail**  **2 marks**  **each** |

**Comments**

* The biggest issue was students mis-interpreting the question. Writing about perfectly competitive vs non-competitive markets.
* Poor explanation of the ‘competition’ characteristic.

**Good Answer**

A sheet of music

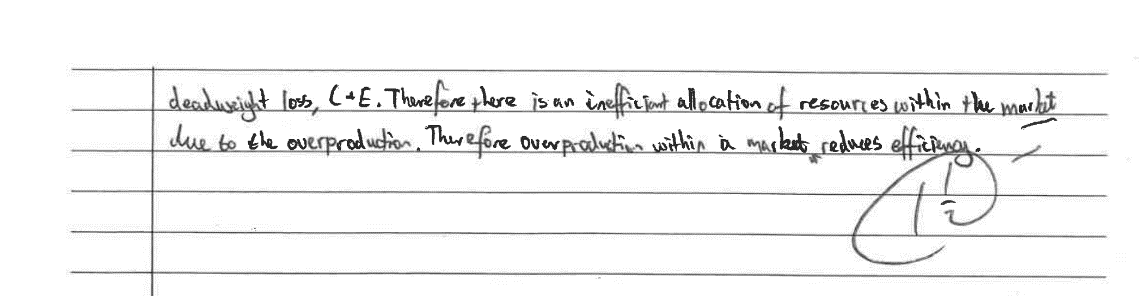
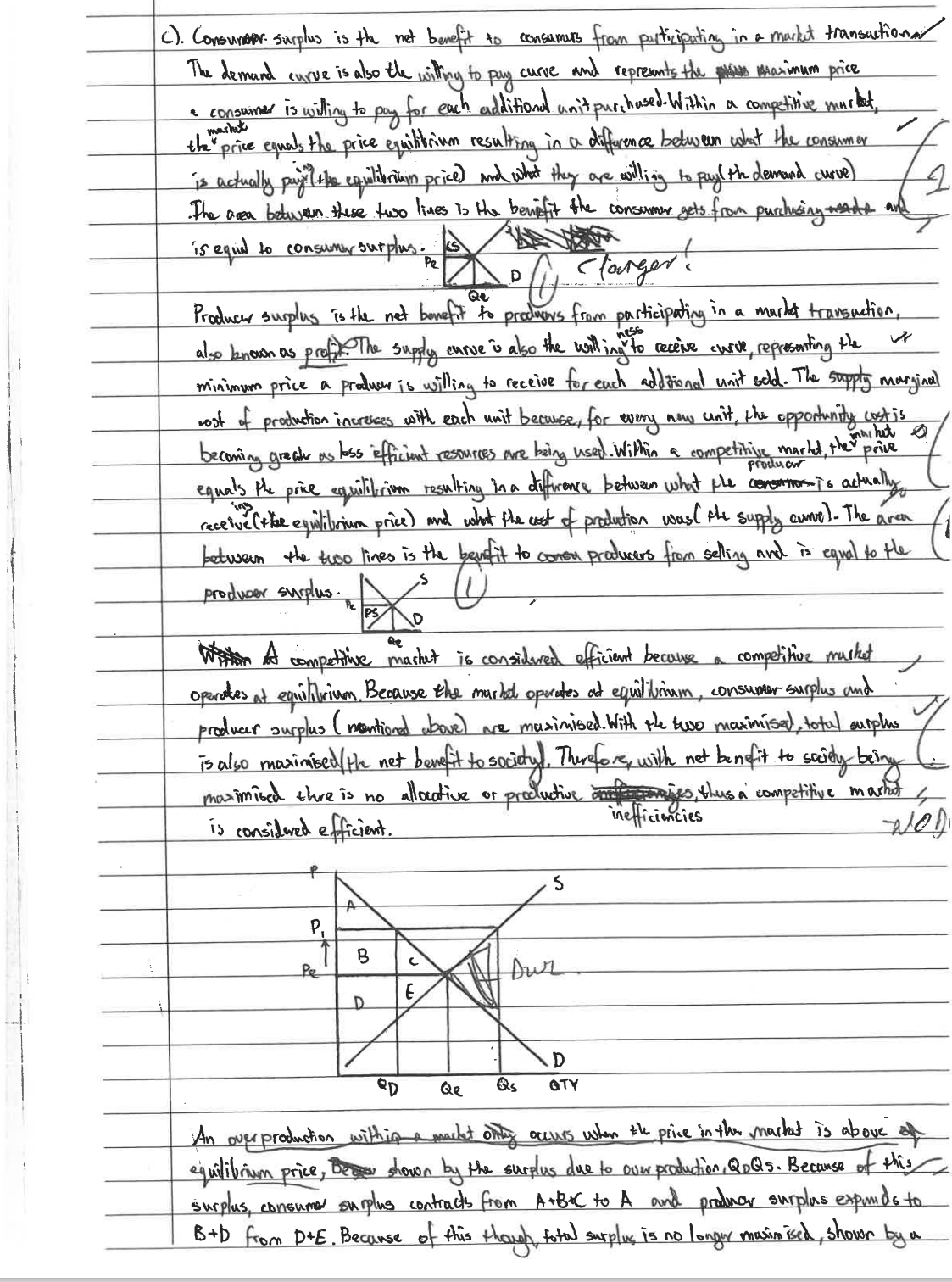
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1. Using the concepts of consumer and producer surplus explain why a competitive market is considered efficient and explain how over production in a market will reduce efficiency. Use model(s) support your answer. (8 marks)

|  |  |
| --- | --- |
| **Description** | **Mark** |
| Consumer and producer surplus  Students may use a numerical or written description as an example   * Consumer surplus is the difference between what a consumer is prepared to pay and what they actually pay (the difference between total benefits and expenditure) – example must be given * Producer surplus is the difference between what a producer is willing to receive (their cost of production) and what they actually receive (the difference between total revenue and the cost of production). Example must be given.   Diagram  Description automatically generated with medium confidenceDiagram  ½ mark for demand and supply  ½ mark for labelling price and quantity  ½ mark for labelling CS and PS  ½ mark for labelling equilibrium  Market efficiency   * Total surplus is a measure of the net benefits to society from both production and consumption of a good. It is the sum of CS and PS. It is also a measure of economic efficiency and this is only **maximised at equilibrium** * This is where we have the most efficient allocation of resources and there is no dead weight loss. Under or over production will create a deadweight loss and reduce total surplus.     Explanation   * Over production leads to a DWL as resources are inefficiently allocated to this industry e.g. negative production externality such as pollution | 1 mark  1 mark  2 marks  1-2 mark  1 mark  NOTE – CAN BE DONE ON THE GRAPH ABOVE  1 mark |
| **TOTAL** | **8 marks** |

**Comments**

* Students poor at providing an example of CS and PS with their definitions.
* In regards to explanation of over-production, many students used a price floor model, which was not acceptable.



**Good Answer**