

**Examination, 2017
Question/Answer Booklet**

ECONOMICS

Unit 1

Student Number:

Time allowed for this paper

Reading time before commencing work: ten minutes

Working time for paper: three hours

Materials required/recommended for this paper

To be provided by the supervisor

This Question/Answer Booklet

Multiple-choice Answer Sheet

To be provided by the candidate

Standard items: pens (blue/black preferred), pencils (including coloured),
sharpeners, correction fluid/tape, eraser, ruler, highlighters

Special items: non-programmable calculators approved for use in the WACE examinations

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. If you have any unauthorised material with you, hand it to the supervisor **before** reading any further.

Structure of this paper

Section	Number of questions available	Number of questions to be answered	Suggested working time (minutes)	Marks available	Percentage of exam
Section One: Multiple-choice	24	24	35	24	24
Section Two: Data interpretation/ Short response	3	3	65	36	36
Section Three: Extended response	4	2	80	40	40
Total					100

Instructions to candidates

- Answer the questions according to the following instructions.

Section One: Answer all questions on the separate Multiple-choice Answer Sheet provided. For each question shade the box to indicate your answer. Use only a blue or black pen to shade the boxes. If you make a mistake, place a cross through that square, then shade your new answer. Do not erase or use correction fluid/tape. Marks will not be deducted for incorrect answers. No marks will be given if more than one answer is completed for any question.

Section Two: Write answers in this Question/Answer booklet. Spare pages are included at the end of the booklet. They can be used as additional space if required to continue an answer. If you need to use the space to continue an answer, indicate in the original answer space where the answer is continued, i.e. give the page number. Fill in the number of the question(s) you are continuing at the top of the page.

Section Three: Write answers in this Question/Answer booklet. Pages are included at the end of this booklet for planning and writing your answer.

 - Planning: If you use the spare pages for planning, indicate this clearly at the top of the page.
 - Answering the question: In the pages provided indicate clearly the number of the question you are answering.
- You must be careful to confine your responses to the specific questions asked and to follow any instructions that are specific to a particular question.

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

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

For each question shade the box to indicate your answer. Use only a blue or black pen to shade the boxes. If you make a mistake, place a cross through that square, then shade your new answer. Do not erase or use correction fluid/tape. Marks will not be deducted for incorrect answers. No marks will be given if more than one answer is completed for any question.

Suggested working time for this section is 35 minutes

1. The price charged by a perfectly competitive firm is
 - (a) higher the more the firm produces.
 - (b) different than the price charged by competing firms.
 - (c) the same as the market price.
 - (d) lower the more the firm produces.

2. One of the requirements for a monopoly (perfectly uncompetitive) is that
 - (a) products are high priced.
 - (b) there is a unique product with no close substitutes.
 - (c) there is no barrier to entry.
 - (d) there are several close substitutes for the product.

3. If the price of a box of tea increases from \$2.80 to \$3.50 and sales fall from 250 000 units per week to 200 000 units per week, then the demand for tea is
 - (a) relatively elastic.
 - (b) relatively inelastic.
 - (c) perfectly inelastic.
 - (d) unable to be determined.

4. A monopoly creates a deadweight loss because the monopoly
 - (a) sets a price that is too low.
 - (b) produces less than the efficient quantity.
 - (c) produces more than the efficient quantity.
 - (d) does not maximize profit.

5. If demand is price elastic, then
 - (a) a rise in price will raise total revenue.
 - (b) a fall in price will raise total revenue.
 - (c) a fall in price will lower the quantity demanded.
 - (d) a rise in price will result in no change to total revenue.

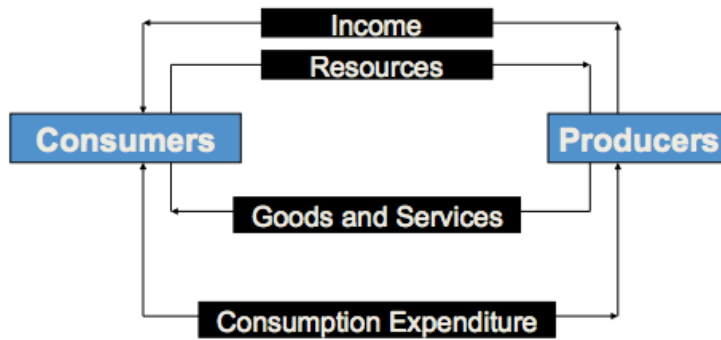
6. Complementary goods have
 - (a) the same elasticities of demand.
 - (b) very low price elasticities of demand.
 - (c) negative cross price elasticities of demand with respect to each other.
 - (d) positive income elasticities of demand.

Questions 7 & 8 refer to the following data.

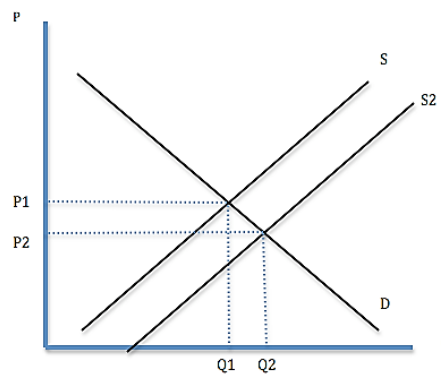
Quantity (units)	Price (\$ per unit)
1	8
2	7
3	6
4	5
5	4
6	3

7. What is the total revenue when 3 units of output are produced?
- (a) \$18
 - (b) \$20
 - (c) \$21
 - (d) \$6
8. What is the marginal revenue when output is increased from 5 to 6 units?
- (a) \$18
 - (b) -\$2
 - (c) \$4
 - (d) \$3
9. A 10% increase in the price of AFL tickets leads to a 15% decrease in the number of tickets sold, therefore the price elasticity of demand for AFL tickets is
- (a) perfectly inelastic.
 - (b) inelastic.
 - (c) unit elastic.
 - (d) elastic.
10. If the cross-price elasticity between two commodities is 1.5,
- (a) the two goods are luxury goods.
 - (b) the two goods are complements.
 - (c) the two goods are normal goods.
 - (d) the two goods are substitutes.
11. Equity means that
- (a) everyone gets an equal share of the goods and services produced.
 - (b) everyone gets his or her fair share of the goods and services produced.
 - (c) more of some goods and services can be produced only if the production of others is reduced.
 - (d) more of all goods and services may be produced.

12. With reference to the diagram below, The Factor market is illustrated in/by



- (a) the inner circle of the model.
 (b) the outer circle of the model.
 (c) the top half of the model.
 (d) the bottom half of the model.
13. An inverse relationship between price and quantity is represented by
- (a) the demand curve.
 (b) the supply curve.
 (c) equilibrium.
 (d) deadweight loss.
14. The diagram below is of the Australian petroleum market.

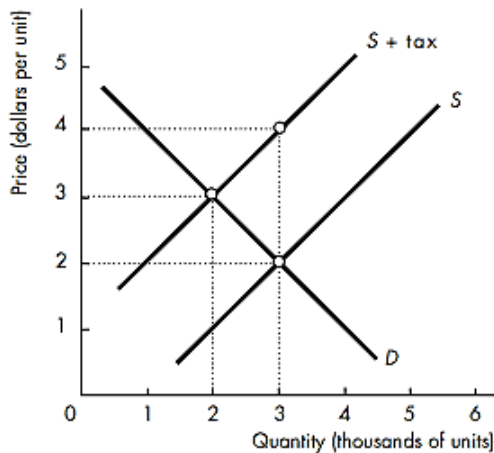


What might cause the supply curve to shift from S to S2?

- (a) Organization of Petroleum Exporting Countries (OPEC) restricts the production of crude oil.
 (b) The government decreases the tax on petroleum production.
 (c) The price of crude oil decreases.
 (d) Technology in the refinement of oil (petroleum) greatly improves.
15. The likely result of a price floor is
- (a) a transfer of wealth from producers to consumers.
 (b) a shortage of the good at a price below the market equilibrium price.
 (c) a surplus of the good at a price below the market equilibrium price.
 (d) a surplus of the good at a price above the market equilibrium price.

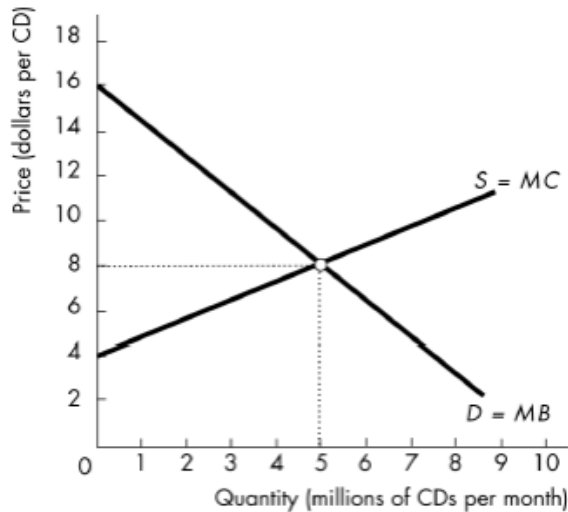
16. A gym conducts a survey of clients, which shows that a 10 percent membership fee hike would lead to a 7 percent decrease in membership. If the university wants to increase its total revenue, it should _____ fees because the demand for the gym service is _____ .
- (a) raise; elastic.
 (b) not raise; elastic.
 (c) raise; inelastic.
 (d) not raise; inelastic.

Questions 17 & 18 relate to the following model:



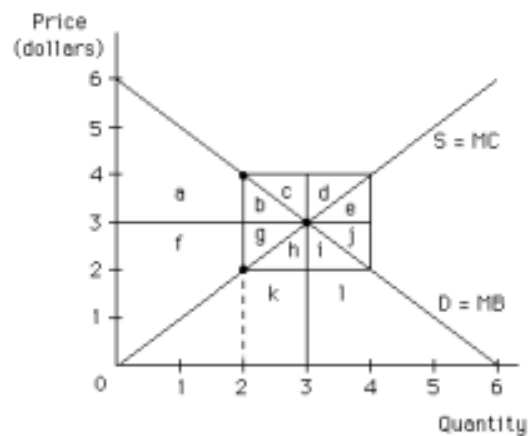
17. The amount of the tax per unit is
- (a) \$0.50
 (b) \$1.00
 (c) \$1.50
 (d) \$2.00
18. The price that sellers will receive after the tax has been paid
- (a) \$1
 (b) \$2
 (c) \$3
 (d) \$4
19. The incidence of a tax
- (a) refers to who really pays it.
 (b) always falls on producers.
 (c) is decided by the government when the tax is imposed.
 (d) is equally divided between consumers and producers.

Questions 20 & 21 refer to the following model.



20. When the price of a CD is \$8.00, total producer surplus from all the CDs will be
- (a) zero.
 - (b) greater than at \$10.00 per CD.
 - (c) \$10 million.
 - (d) \$20 million.
21. When the price of a CD is \$8.00, total surplus from all the CDs will be
- (a) \$40 million.
 - (b) \$30 million.
 - (c) \$20 million.
 - (d) \$10 million.
22. With reference to the model below, if the government passes a law that establishes \$4 as the legal minimum price, the loss in economic welfare equals

- (a) area h & i.
- (b) area e & j.
- (c) area c & d.
- (d) area b & g.



23. Which of the following would cause the price of plums to rise without a shift in the demand curve?
- (a) an increase in the popularity of oranges.
 - (b) an increase in the real incomes of consumers.
 - (c) an increase in the cost of harvesting plums.
 - (d) a fall in the price of agricultural land.
24. In a market for a product with positive externalities
- (a) all benefits are not internalised.
 - (b) there is overproduction.
 - (c) profits are too low.
 - (d) there is too much consumption.

END OF SECTION A

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

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

Spare pages are included at the end of this booklet. They can be used as additional space if required to continue an answer. If you need to use the space to continue an answer, indicate in the original answer space where the answer is continued, i.e. give the page number. Fill in the number of the question(s) that you are continuing to answer at the top of the page.

Suggested working time for this section is 65 minutes.

Question 25

Refer to the following extract to answer the questions below.

A recent 2016 CSIRO Healthy Diet Survey which included responses from over 86, 500 adults showed that only 49% of this survey group meet the daily recommended intake of fruit. With regards to Junk food, just 1% of Australians are abstaining from junk food, and 1/3rd eat more than the recommended maximum allowance.

Another report from the Australian Beverages Council (ABC - an industry group that represents the interests of Australian manufacturers, importers and distributors of non-alcoholic beverages) outlines a shift from sugar sweetened to non-sugar sweetened soft drinks since 2002 in children/teenagers consumption patterns. However, the ABC recognizes the concerns about rising levels of obesity & chronic disease related to poor diets and lack of physical activity. Some initiatives they have put in place are: reducing access to soft drinks in primary & secondary schools; reducing portion sizes; restricting marketing of products to children under 12 years; increasing choice for consumers such as offering lower or no kilojoule beverages; increased educational programmes.

Despite these measures and in light of the Nov 2016 Grattan Institute report titled "A sugary drinks tax: recovering the community costs of obesity", there has been renewed calls to tax sugar-sweetened beverages. Beverages that should be subject to a tax are non-alcoholic, water based drinks with added sugar. This includes soft drinks, flavoured mineral waters, energy drinks, cordials and fruit juices with added sugar.

The report states that the market fails as the full costs of obesity are mostly covered by publicly-funded health system and as such an excise tax of 40 cents per 100 grams is required to address this market failure. This tax would increase the price of a two-litre bottle of soft drink by about 80 cents. This would raise around \$500 million a year and predicts about 15% reduction in consumption and a 2% decrease in obesity.

- a. Briefly explain why the sugar-sweetened beverage industry is seen by some in the health profession as a negative externality. (2 marks)

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Question 26: Refer to the following extract to answer the following questions.

In December 2013, the ACCC commenced proceedings in the Federal Court against Colgate, Cussons, Woolworths and Mr Paul Ansell, a former Colgate sales director. The ACCC alleged that Colgate, Cussons and Unilever made and gave effect to cartel and other anticompetitive arrangements

Woolworths ordered to pay \$9 million in penalties in laundry detergent cartel proceedings

3 June 2016

The Federal Court has ordered Woolworths Limited (Woolworths) to pay penalties totaling \$9 million for contraventions of the Trade Practices Act 1974 (now called the Competition and Consumer Act 2010) (the Act).

Woolworths admitted to being knowingly concerned in the making of, and giving effect to, an understanding between Colgate-Palmolive Pty Ltd (Colgate), PZ Cussons Australia Pty Ltd (Cussons) and Unilever Australia Limited (Unilever) that they would each cease supplying standard concentrate laundry detergents to Woolworths in early 2009 and supply only ultra concentrates to Woolworths from that time.

<http://www.accc.gov.au/media-release/woolworths-ordered-to-pay-9-million-in-penalties-in-laundry-detergent-cartel-proceedings>

Colgate ordered to pay \$18 million penalty in laundry detergent cartel proceedings

28 April 2016

The Federal Court has made orders that Colgate-Palmolive Pty Ltd (Colgate) pay total penalties of \$18 million for contraventions of the Trade Practices Act 1974 (now called the Competition and Consumer Act 2010) (the Act).

Colgate admitted to entering understandings which limited the supply, and controlled the price, of laundry detergents.

ACCC Chair Rod Sims said.

“The information sharing understanding involved phone calls between senior managers of competing companies, many of which started as social calls, but turned to unlawful exchanges of pricing information. Any contact between competitors carries risk and while discussion of price is particularly serious, there are many topics which may lead to an anticompetitive understanding.”

The penalties ordered against Colgate comprise \$12 million for the understanding to withhold supply, and \$6 million for the information sharing understanding.

<http://www.accc.gov.au/media-release/colgate-ordered-to-pay-18-million-penalty-in-laundry-detergent-cartel-proceedings>

- a. What is a cartel and why is it seen as anti-competitive behaviour? (2 mark)

- b. Colgate and Woolworths have been found guilty of anticompetitive behaviours, specifically creating a cartel, collusion and market sharing. Describe the two offences below in relation to Colgate. (4 marks)

Collusion:

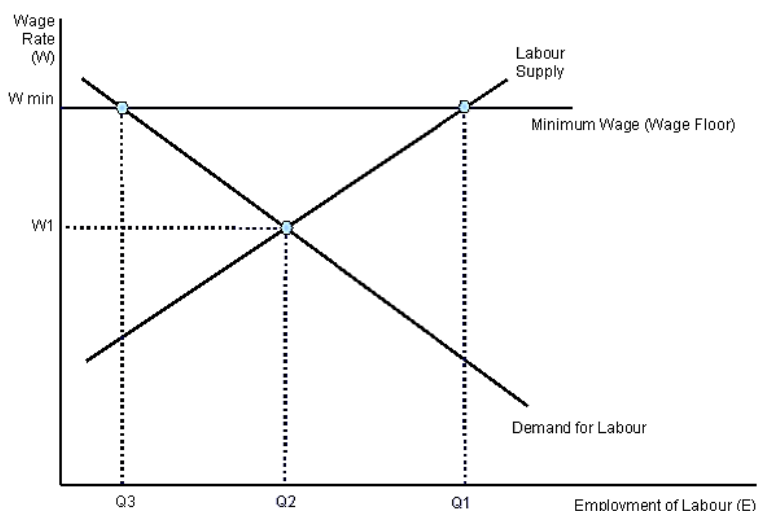
Market Sharing:

- c. Describe the role of the ACCC. (2 marks)

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Question 27.

Examine the following diagram on the labour market and answer the questions that follow.



a. (i) Define price controls. (1 mark)

(ii) Identify the two main types of price controls. (1 mark)

b. Define price floor and describe why governments may impose this price control in the labour market. (4 marks)

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

This section contains **four (4)** questions. You must answer **two (2)** questions.

Write your answers on the lined pages provided.

Pages are included at the end of this booklet for planning and writing your answer.

- Planning: If you use the spare pages for planning, indicate this clearly at the top of the page.
- Answering the question: In the pages provided indicate clearly the number of the question you are answering.

Suggested working time for this section is 80 minutes.

Question 28. (20 marks)

- Define elasticity and explain the concepts of PeD and TR, how can they be measured, and how they relate to one another. (10marks)
- Using a model, explain why governments are reluctant to impose indirect taxes on relatively elastic products. (10 marks)

Question 29. (20 marks)

- Distinguish between the concepts of demand and supply. (5 marks)
- Using a model and examples, explain **two** factors that would cause an increase in supply. (6 marks)
- Using a model and examples explain **three** factors that would cause an increase in demand. (9 marks)

Question 30. (20 marks)

- Distinguish between public goods and common resources. (4 marks)
- Explain why public goods suffer from the free rider effect and common resources suffer from the tragedy of the commons. (6 marks)
- Describe policy options to address the market failures associated with either public goods **or** common goods. (10 marks)

Question 31. (20 marks)

- “Competitive markets may be efficient but they may also result in reducing equity.” Discuss this statement with reference to the concepts of efficiency and equity and the relationship between the two concepts. (10 marks)
- “Government intervention in the market may decrease efficiency”. Prove this statement to be true by describing the effects of a government subsidy. (10 marks)

END OF QUESTIONS

