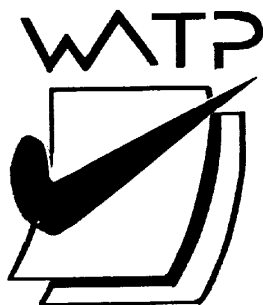


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ECONOMICS UNIT 1

2017

MARKING GUIDE

Please note that the following notes are guidelines only and are intended to provide a common reference for markers. They are in no way to be considered as an exhaustive guide or checklist for the marking of this exam.

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

Question	Answer
1	C
2	B
3	B
4	B
5	B
6	C
7	A
8	B
9	D
10	D
11	B
12	C
13	A
14	D
15	D
16	C
17	D
18	A
19	A
20	D
21	B
22	D
23	C
24	A

Section Two: Data interpretation/Short response**36% (36 Marks)****Question 25**

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

Description	Marks
<ul style="list-style-type: none"> Define negative externality Refer to article to illustrate Social costs are > private costs examples such as health costs associated with obesity etc.. 	0-2
Total	2

- (b) Using a model, describe how **ONE** of the ABC initiatives could impact the demand (MB) curve and reduce the negative externality. (5 marks)

Description	Marks
<ul style="list-style-type: none"> One only of the following initiatives described 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. Negative externalities fail as the market is overconsuming or overproducing this product These initiatives will decrease consumer demand for the product and shift the demand (MB) curve to the left, Reducing the quantity consumed and produced. Moving the equilibrium point closer to the socially optimum level of consumption/production. 	0-3
<ul style="list-style-type: none"> Model negative externality model shifting MB to left reducing external costs and showing a more efficient allocation of resources as equilibrium is closer to the socially optimum level of output/consumption 	0-2
Total	5

- (C) With reference to the text and using a model, describe how an excise tax may reduce this externality. (5 marks)

Description	Marks
<ul style="list-style-type: none"> Reference to text – such as “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.” Model – negative externality model Tax – shift Supply curve left from private supply curve Students 	0-1
	Model 0-2

<ul style="list-style-type: none"> • Need to draw/label on the model the external cost, private cost (S_p) and social cost (the S_s) curves. Add in tax (between S_s and S_p – eg. S_t) • Refer directly to model, demonstrate how the market has resulted in a deadweight loss as there is an over- allocation of resources to this market and the market produces above the social optimal level of output (the external cost has not been internalized/realised by the market) • Students should refer to: How the tax reduces this external cost and begins to internalise the social costs. • DWL, inefficient allocation of resources and reducing economic wellbeing – becomes smaller with the government action • Students should mention that the aim is to shift the market equilibrium closer to the efficient price and quantity level. 	Explanation 0-2
Total	5

Question 26

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

Description	Marks
Businesses that make agreements with their competitors to fix prices, rig bids, share markets or restrict outputs are breaking laws and stealing from consumers and businesses by inflating prices, reducing choices and damaging the economy. https://www.accc.gov.au/business/anti-competitive-behaviour/cartels	0-2
Total	2

- (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)

Description	Marks
Collusion – agreements between competing firms eg. competitors agree on pricing rather than competing against each other or market sharing <ul style="list-style-type: none"> • Refer to article and give an example 	0-2
Collusion – agreements between competing firms eg. competitors agree on pricing rather than competing against each other or market sharing Refer to article and give an example	
Market sharing - when competitors agree to divide a market so participants are sheltered from competition <ul style="list-style-type: none"> • Refer to text on how colgate did this – limiting supply 	0-2
Total	4

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

Description	Marks
<ul style="list-style-type: none"> The Australian Competition and Consumer Commission (ACCC) is an independent Commonwealth statutory authority whose role is to enforce the <i>Competition and Consumer Act 2010</i> and a range of additional legislation, promoting competition, fair trading and regulating national infrastructure for the benefit of all Australians. Students may include information about the ACCC – under the Competition and Consumer Act (legislation power) the ACCC may use their regulatory powers to ensure anti-competitive activities are prohibited. 	0-2
Total	2

- (d) Describe, using a model how Colgate's actions can result in inefficiency (DWL).

(4 marks)

Description	Marks
<ul style="list-style-type: none"> Model – monopoly market model can be used in comparison to a competitive market model Explanation of model – Students Define inefficiency – and show how market sharing/collusion can restrict quantity (in this case), resulting in an increase in price. Need to refer directly to model, demonstrate quantity is restricted, resulting in increase in price Students should refer to changes in consumer (decreases) and producer surplus (rises) Resulting in total surplus decreasing, DWL, inefficient allocation of resources and reducing economic wellbeing. 	0-4
Total	4

Question 27

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

Description	Marks
Definition: government regulated legal minimum &/or maximum prices set on specified goods and services	1
Total	1

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

Description	Marks
Price floors, price ceilings	1
Total	1

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

Description	Marks
<ul style="list-style-type: none"> • Definition price floors 	0-1
<ul style="list-style-type: none"> • Rationale for government to place price floors minimum price set above equilibrium price will advantage consumers • In text case, advantages workers as minimum wage is above equilibrium – may have resulted through effective lobbying, maintain workers standard of living (equity grounds for low income earners) 	0-3
Total	4

- (c) With reference to the text and using a model describe the impact of the price floor in the labour market on the consumer, the producer and the economy. (6 marks)

Description	Marks
<p>Model- Correctly drawn and labelled on model showing and <u>deadweight loss</u> (to illustrate inefficiency), consumer and producer surplus</p> <ul style="list-style-type: none"> • Decrease in total surplus 	0-2
<ul style="list-style-type: none"> • Purpose of the price floor – students should address in their response if the purpose has ultimately been achieved or not. • Model of price floor <p>Use of model to explain the inefficiency of government - students need to explain the effects on</p> <ul style="list-style-type: none"> • price & quantity of the government action. • consumer and producer surplus • total efficiency (total surplus, DWL) – price floor creates inefficiency in the market <ul style="list-style-type: none"> • wider effects on consumer, producer and government when exploring what can be done with the surplus that has been created. Eg. Governments purchase the surplus or provide producers with a subsidy to not produce as much - effect on government expenditure and opportunity cost, producer dumps the surplus – inefficient resource allocation, a black market emerges – unregulated industry etc... <p>Students must refer to the models drawn to attain full marks.</p>	0-4
Total	6

Section Three: Extended Answer**40% (40 Marks)****Question 28**

- (a) Define elasticity and explain the concepts of PeD and TR, how can they be measured, and how they relate to one another.

(10 marks)

Description	Marks
<ul style="list-style-type: none"> Define elasticity Define PED 	0-1
<ul style="list-style-type: none"> Measurement – describe relatively elastic, inelastic and unit elasticity Models to show this 	0-4
<ul style="list-style-type: none"> Point method – formula and example Explanation of coefficient - >1 elastic, <1 inelastic, $=1$ unitary 	0-3
<ul style="list-style-type: none"> Total Revenue method described with interpretation Elastic = P and TR move in opposite direction Inelastic = P and TR move in same direction Unitary = P does not change TR 	0-2
Total	10

- (b) Using a model explain why governments are reluctant to impose indirect taxes on relatively elastic products.

(10 marks)

Description	Marks
<ul style="list-style-type: none"> Definition of key term – indirect tax with example 	0-1
<ul style="list-style-type: none"> Why not imposed: Large impact on producer, burden of tax on Producer (consumers are very sensitive to changes in price) Reasons why the product may be elastic can be briefly presented – luxury good, non essential, large proportion of income spent, many substitutes 	0 – 2
<p>Model – D & S model – with demand curve being relatively elastic and supply curve shifting to the left (imposition of tax) Correctly labelled model showing effects on consumer and producer surplus and government revenue. DWL can also be shown</p>	0 - 2
	0-5

<p>Effects:</p> <p>Consumer – Burden of tax should be either calculated or shown. Effect on consumer surplus</p> <p>Producer – the proportion of tax producer carries should be calculated or shown. Effect on producer revenue, producer surplus</p> <p>Decrease Total surplus and DWL should be explained (4 marks)</p> <p>Government - Tax revenue gained should either be calculated or shown. (1 mark)</p>	
Total	10

Question 29

(a) Distinguish between the concept of demand and supply

(5 marks)

Description	Marks
<ul style="list-style-type: none"> Define demand – consumer concept Motivation/goal – maximize utility (satisfaction) Law of demand – outline why inverse relationship between price and quantity. utility, income and substitution effect 	0-2
<ul style="list-style-type: none"> Define supply – producer concept Motivation/goal – maximize profit Law of supply – outline why positive relationship between price and quantity 	0-2
<ul style="list-style-type: none"> Model – demand curve and supply curve 	0-1
Total	5

(b) Using a model and examples, explain **two** factors that would cause an increase in supply.

(6 marks)

Description	Marks
<ul style="list-style-type: none"> Students describe how an increase in Supply be caused by non-price factors affecting supply such as Costs of production decreasing Price of other goods increase, producer will shift production into that good – an increase in the number of producers in the market Improvements in technology Favourable government policies &/or treaties Favourable weather conditions 	0-4 any 2 factors 0-2 marks each
<ul style="list-style-type: none"> Students need to use the model & refer to model to explain shift 	0-2

<ul style="list-style-type: none"> Supply curve correctly labelled an increase (shift right) and upward sloping 	
Total	6

- (c) Using a model and examples explain **three** factors that would cause an increase in demand

(9 marks)

Description	Marks
<ul style="list-style-type: none"> Students describe via model how a shift in demand is caused by non-price factors affecting demand such as income population tastes and preferences prices of substitutes and complements expected future prices <p>Model</p> <ul style="list-style-type: none"> refer to model to explain shift demand curve correctly labelled downward sloping and showing, an increase (shift right) 	1-9 any 3 3X3
Total	9

Question 30

- (a) Distinguish between public goods and common resources

(4 marks)

Description	Marks
<ul style="list-style-type: none"> Define Public good, nonrival in consumption & non excludable Provide examples (shouldn't use education, health & transport – technically not public but merit goods) 	0-2
<ul style="list-style-type: none"> Define common resources – rival in consumption & non excludable Provide examples 	0-2
Total	4

- (b) Explain why public goods suffer from the free rider effect and common resources suffer from the tragedy of the commons.

(6 marks)

Description	Marks
<ul style="list-style-type: none"> Why govt provide public goods & how financed – identify the good can not be priced and sold in a market Market failure as public goods are non-excludable therefore can't exclude free riders. Students describe what a free rider is. Via an example 	0-3
<ul style="list-style-type: none"> Tragedy of the commons (Hardin) dilemma as individuals act in own self interest and as a result deplete, reduce, destroy a shared resource Lack of property rights Real world example/s eg. Elephants in Africa, failing fish stocks, climate change, forest habitats etc... 	0-3
Total	6

- (c) Describe policy options to address the market failures associated with either public goods **or** common goods.

(9 marks)

Description	Marks
<ul style="list-style-type: none"> Define market failure – inefficient allocation of resources 	0-1
<ul style="list-style-type: none"> Both public goods and common resources are non-excludable Market fails as people act in own self-interest, no ownership of resources Over-consumption of good/service occurs – market doesn't recognise true value of the resource/good government action may be required 	0-2
<ul style="list-style-type: none"> Govt policies Assign property rights Legislation & regulation: for example national parks and conservation areas Subsidies or Set taxes to increase price and reduce use 	0-4
<ul style="list-style-type: none"> Student develops description by using examples to illustrate government policies/model tax or subsidy 	0-3
Total	10

Question 31

- (a) 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)

Description	Marks
<ul style="list-style-type: none"> • Definition of purely competitive Market and a model market equilibrium – total surplus (market efficiency). • Correctly labelled model showing consumer, producer and total surplus maximized at equilibrium. 	0 – 2
<ul style="list-style-type: none"> • Definition of Equity, • Explanation of the relationship between efficiency and equity – trade-off between efficiency and equity . Water pricing in Australia might be presented as an example of this. • Weaknesses of the market system (eg. inability to cater to the economically weak) • The question states ‘may reduce equity’ students should justify their point of view and may mention briefly the role of government to address this. 	0 - 4
<ul style="list-style-type: none"> • How the market system fails in that it may contribute to inequity in income distribution • Lorenz curve is not required (as it is unit 2 Macro objective) <p>Discussion on policy options to promote equity and hence address the market failure</p> <ul style="list-style-type: none"> • Describe horizontal and vertical equity • Examples of government policy to address vertical equity explained (eg personal income tax system in Australia) • Examples of government policy to address horizontal equity explained (eg how the principle of equal opportunity is upheld) 	0 - 4
Total	10

- (b) "Government intervention in the market may decrease efficiency". Prove this statement to be true by describing the effects of a government subsidy.

(10 marks)

Description	Marks
<ul style="list-style-type: none"> • Define subsidy 	0-1
<ul style="list-style-type: none"> • Model Subsidy shift supply to right, show size of subsidy, price falls, Qty increases. • Students should refer on diagram to DWL and Cost of subsidy • Explain model. 	0-4
<ul style="list-style-type: none"> • Impact: consumer surplus increases, pay less, consume more • Producer receive higher price (consumer pays + govt subsidy – producer surplus increases. • Subsidy "hidden tax" as the subsidy comes out of tax revenue. Cost of subsidy (students should refer to model) 	0-3
<ul style="list-style-type: none"> • Inefficient as the cost of the subsidy greater than the increases in consumer and producer surplus – DWL (refer to model) • Students should prove this by calculating the cost of the subsidy & the DWL or showing it on the model. 	0-2
Total	10