

2018 YEAR 11 ECONOMICS ASSESSMENT 1

**Demand and Supply**  Weight ( 7.5% )

**Section 1: Multiple Choice** **12 Marks**

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| 1. | A rational or sensible consumer aims to: | |
|  | (a) | Buy as many low cost articles as their income will allow. |
|  | (b) | Secure the highest level of satisfaction from their available income. |
|  | (c) | Avoid purchasing expensive goods and services. |
|  | (d) | Purchase a wide range of goods. |
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| 2. | Which of the following is **not** a trait of a market economy? | |
|  | (a) | Private property rights |
|  | (b) | Consumers and producers act to further their own interests |
|  | (c) | The government allocates resources to their most efficient use |
|  | (d) | Competition within markets |
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| 3. | Demand represents the quantity of goods or services which buyers: | |
|  | (a) | Are willing to offer for purchase at any given price. |
|  | (b) | Will purchase in response to a change in their income. |
|  | (c) | Are willing and able to purchase at a given price at a given point in time. |
|  | (d) | Will require firms to produce in order to satisfy their need to make a profit. |
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| 4. | If supply increases while demand stays the same, the equilibrium price and quantity would: | |
|  | (a) | Stay the same. |
|  | (b) | Rise. |
|  | (c) | Fall. |
|  | (d) | Fall before returning to the original equilibrium price. |
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| 5. | Which of the following would cause a contraction in demand for chocolate? | |
|  | (a) | A decrease in the price of chocolate |
|  | (b) | A rise in real incomes |
|  | (c) | A decrease in the price of cocoa beans |
|  | (d) | An increase in the price of chocolate |

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| 6. | If supply is greater than demand then (include graph and change way question worded) | |
|  | (a) | Demand will expand |
|  | (b) | Downward pressure is applied to prices |
|  | (c) | A shortage exists |
|  | (d) | An economy must be in a boom |
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| 7. | If the equilibrium price for high definition televisions increases, then | |
|  | (a) | Demand may have decreased while supply has remained unchanged. |
|  | (b) | Demand may have stayed the same while supply has increased. |
|  | (c) | Supply may have increased while demand has decreased. |
|  | (d) | Supply may have decreased while demand has remained unchanged. |
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| 8. | What effect will the opening up of a new iron ore mine in Western Australia have on the world iron ore market? (reword better) | |
|  | (a) | Shift the supply curve to the right and bring about higher iron ore prices. |
|  | (b) | Shift the supply curve to the left and bring about higher iron ore prices. |
|  | (c) | Shift the supply curve to the left and bring about lower iron ore prices. |
|  | (d) | Shift the supply curve to the right and bring about lower iron ore prices |
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| 9. | Assuming that bread and butter are complementary goods and that margarine and butter are substitutes, which of the following situations is most likely to be true? | |
|  | (a) | If the price of bread rises the demand for margarine and butter will both increase. |
|  | (b) | If the price of butter rises, the demand for margarine will increase and the demand for bread will decrease. |
|  | (c) | If the price of margarine rises, the demand for butter will increase by a greater amount. |
|  | (d) | If the price of bread falls, the demand for margarine and butter will fall. |
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| 10. | Which of the A non-competitive market is distinct from a competitive market in that: | |
|  | (a) | There is market power. |
|  | (b) | There is product differentiation. |
|  | (c) | The prices are lower and quantity supplied is higher. |
|  | (d) | Consumers are able to act in self interest. |

Put graph questions in here for 10 & 11

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| 11. | All other things being equal, a supply curve slopes upward from left to right as higher prices will: | | |
|  |  | (i) | Produce a larger quantity for sale |
|  |  | (ii) | Result in a shift in the supply curve |
|  |  | (iii) | Lead to increased profits |
|  |  | (iv) | Attract scarce resources from low value uses to higher value uses |
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|  | (a) | (i), (ii) and (iii) | |
|  | (b) | (ii), (iii) and (iv) | |
|  | (c) | (i), (iii) and (iv) | |
|  | (d) | (i), (ii) and (iv) | |
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| 12. | Assuming lamb and chicken are substitutes, a successful advertising campaign for lamb will | | |
|  | (a) | Cause the demand for lamb to increase and the demand for chickens to derease. | |
|  | (b) | Cause the demand for lamb to expand | |
|  | (c) | Cause the demand for lamb to remain unchanged but will increase the price consumers are willing and able to pay. | |
|  | (d) | Cause the demand for lamb to increase and increase the demand for chickens | |
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**Section B: Short Answer / Data analysis 12 marks**

13. Read the artice and complete the questions which follow.

**What is behind the rising price of butter?**

October 25, 2017

Have you noticed that some of Australia’s favourite baked goods, such as croissants and buttery biscuits, have been creeping up in price? This becomes less surprising when one considers that globally, the price of butter has risen by around 60% over the past year.

…

While butter prices have more than doubled since July 2016, farm-gate milk prices in most producing areas have remained stable... The key ingredient butter producers require is not just the milk - but rather the milk fat.

What is driving the butter price spike?

Despite relatively stable milk production levels, butter production has dropped in some of the major producing countries since late 2016. In the European Union, butter production for the first 6 months of 2017 was about 5.5% lower than during the same period in 2016.

In Australia, butter production has dropped by 18% between 2016 and 2017. The reasons for lower butter production levels in Australia are complex. First, we are seeing lower than usual milk fat levels and the diversion of milk fat solids towards the processing of higher value-added dairy products such as cheese and cream, to meet a rising demand from Asian and US markets.

Dairy products competing for milk fat contents

The level of milk fat percentage, as well as the composition of fat in cows, is controlled by a variety of genetic and nutritional factors. In Australia, a poor 2016 grazing season limited the pasture nutritional quality available to dairy herds. Similarly, in the European Union, there is a higher share of young females in the herd and a lower use of energy-rich feed led to lower milk fat contents.

Despite record butter prices, producers know that the best financial returns are obtained when processing milk into value-added products like cheese or cream. Cheese production, whether in Europe or Australia, has been boosted by strong export markets to Asia and the US, and rising domestic demand. Similar trends have been observed for cream.

The interesting point here to note is that butter production needs more milk than cheese production, and yet cheese commands traditionally higher prices than butter.

Source: http://theconversation.com/what-is-behind-the-rising-price-of-butter-85968]

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| a. | By how much has butter production dropped in Australia between 2016 and 2017?  (1 mark) |
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| b. | Explain the impact of an increase in demand on price and quantity. Use a diagram to support your answer.  (2 marks) | | |
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| c. | Explain why producers are diverting milk-fats from butter production to the production of cheese and cream. With the aid of a diagram, illustrate the impact of this change on the price and quantity of butter.  (4 marks) | | |
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| d. | Using examples, explain five non-price factors affecting demand for milk.  (5 marks) | |
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1.The following diagram illustrates the market for child-care services. A shift in demand from D to D1 is best explained by:

Price

D

D1 S

D

D1

Quantity

(a) a decrease in the number of young families

(b) an increase in child-care subsidies offered by the government

(c) a reduction in available staff and facilities for child-care

(d) an increase in the price of child-care

2 . A good is inferior if

(a) demand for it falls as income rises

(b) demand for it falls as price rises

(c) it is replaced by other goods as its price rises

(d) less of it is demanded when resources are unavailable

3.The diagram below represents the market for wheat.



The shift in supply from S to S1 is best explained by

(a) a fall in the global wheat price.

(b) poor growing conditions in a number of grain-growing countries.

(c) a shift in consumer preferences toward rice.

(d) the development of a faster-growing strain of wheat.

Questions 4 and 5 refer to the following diagram

D1 S

Price D

l

k S1

m

n

S

D1

S1 D

Quantity

A movement from equilibrium point k to n would be the result of

(a) an increase in supply and contraction in demand

(b) an increase in supply and expansion in demand

(c) a decrease in supply and contraction in demand

(d) a decrease in supply and expansion in demand

A movement from equilibrium point k to m would be the result of

(a) an increase in demand and an increase in supply

(b) a decrease in demand and an increase in supply

(c) an expansion in demand and an expansion in supply

(d) a decrease in demand and a decrease in supply