Saigon International College

School Curriculum and Standards Authority

Year 11 ATAR Semester 1 examination, 2022

Question/Answer booklet

AEECO ECONOMICS – UNIT 1

Student number: In figures: [redacted]

In words: [redacted]

Time allowed for this paper

Reading time before commencing work:	ten minutes
Working time:	three hours

85

Materials required/recommended for this paper

To be provided by the supervisor

This Question/Answer booklet

Number of additional answer booklets used (if applicable).

To be provided by the candidate

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

Special items: non-programmable calculators 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 material. If you have any unauthorised material with you, hand it to the supervisor **before** reading any further.

Saigon International College

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Structure of this paper

Section	Number of questions available	Number of questions to be answered	Suggested working time (minutes)	Marks available	Percentage Of examination
Section One Multiple-choice	24	24	30	24	24
Section Two Data interpretation/ Short answer	3	3	70	36	36
Section Three Extended answer	3	2	80	40	40
			Total	100	100

Instructions to candidates

1. The rules for the conduct of the Saigon International College examinations are detailed in the *SIC Assessment Policy 2021*. Sitting this examination implies that you agree to abide by these rules.

2. Write your answers in this Question/Answer booklet preferably using a blue/black pen. Do not use erasable or gel pens.

3. Answer the questions according to the following instructions.

a. Section One: Answer all questions by circling the letter for the answer. If you make a mistake, place a cross through the circle, then select the new letter. Marks will not be lost for incorrect answers. No marks will be given if more than one answer is completed for any question.

b. Sections Two and Three: Write your answers in this Question/Answer booklet.

4. 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.

5. Pages for planning/continuing your answers to questions are 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.

Section 1: Multiple-choice

24% (24 Marks)

This section has **24** questions. Answer **all** questions by circling the letter for the answer. If you make a mistake, place a cross through the circle, then select the new letter. 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: 30 minutes

23

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1. A market is any location where buyers and sellers
   (a) can meet to exchange goods, services or resources, usually for money.
   (b) display and sell goods, services or resources.
   (c) can meet to exchange goods and services, usually for money.
   (d) can acquire goods and services to satisfy their needs and wants.

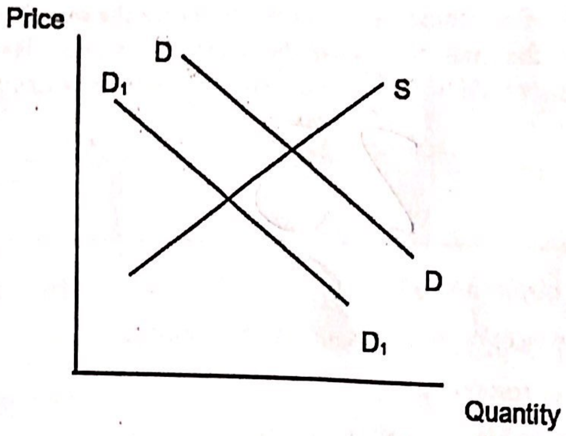
2. A factor market is where households provide firms with
   (a) labour and receive profit.
   (b) goods and services and receive income.
   (c) resources and receive goods and services.
   (d) resources and receive income.

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. x
   (d) higher profits and greater government taxation revenue. x

4. The Law of Supply suggests that the Price ↑ Q↑
   (a) quantity produced will rise as price falls.
   (b) price will rise when there is an increase in quantity supplied.
   (c) quantity supplied will rise 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.

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



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 in 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) quantity demanded will rise.

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 encouraging other producers to enter the market

(d) An improvement in the relevant production technology

9. Andrea consumes two goods – coffee and chocolates. Her demand for coffee is price inelastic while her demand for chocolates is price elastic. If there is an increase in the price of both coffee and chocolates, Andrea's expenditure on

(a) both coffee and chocolates will increase.

(b) both coffee and chocolates will decrease.

(c) coffee will increase and her expenditure on chocolates will decrease.

(d) coffee will decrease and her expenditure on chocolate will increase.

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

inelastic

(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.

inelas elas

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 a large increase in supply.

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

12. If the price of bananas increased by 25 percent, which of the following values of the cross elasticity for apples would be most likely?

Substituting positive

(a) 0.0

(b) 0.5

(c) -0.5

(d) -1.0

13. Which of the following best describes how firms practice price discrimination?

(a) 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. One day, the price of Tesla shares rose from \$650 to \$700 and this caused sellers to offer 5% more shares for sale than in the previous day's trading. We can therefore assume that at a price of \$650 supply is

(a) relatively inelastic with coefficient of 0.65

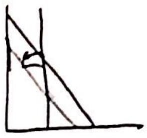
(b) relatively elastic with a coefficient of 1.42

(c) relatively inelastic with a coefficient of 0.1

(d) relatively elastic with a coefficient of 1.54

$$\frac{5/100}{50/650}$$

15. If supply is perfectly inelastic and demand decreases then the price will
(a) fall and the quantity will stay the same.
(b) rise and the quantity will stay the same.
(c) fall and the quantity will rise.
(d) rise and the quantity will fall.



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) $25
(c) $15
(d) It is impossible to calculate from the information given.

25
10

17. Suppose the government places a tax on business profits that would cause the businesses to decrease output, and generate a deadweight loss. Revenues from the tax would fund individuals on low incomes. The decision to levy this tax implies that the government
(a) gains from taxes.
(b) values its view of fairness more than efficiency.
(c) values efficiency more than its view of fairness.
(d) values people but not businesses.

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 reduce advertising and prices.

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) effects on other people 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.

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. Vertical equity will improve if
(a) people on lower incomes pay less tax.
(b) people on higher incomes pay more tax.
(c) the government provides a grant of $500 to every household.
(d) All of the above will improve vertical equity.

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

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.

If you want to plan or continue your answer to a question, use the blank pages at the end of this Question/Answer booklet. If you do this, at the original answer show the page where you continue your answer. On the top of that page, list the question number you are continuing.

Suggested working time: 70 minutes.

Question 25

(12 marks)

The edited extract below is from an article by Kirsteen Mackay, published online on 25-2-2021.

Will iron ore prices continue to rise?

In February 2021 the price of iron ore rose to $160 per tonne, the highest it has been in nearly a decade. The reasons for the price rise are higher demand and reduced supply.

Iron ore is a core component in the production of steel, which is used extensively in industries such as shipbuilding and construction. 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 demanding more steel and many developing countries are increasing their construction. The result is that demand for iron ore continues to grow.

The world's biggest iron ore exporting countries are Australia and Brazil. However, exports of iron ore from Brazil collapsed after January 2019, when a disaster at a large iron ore mine killed 270 people.

Higher iron ore prices encourage more production, and also investment in new mines. If new investment happens, then it should offset the supply shortages. Indeed, many new iron ore projects are being planned or are already being built.

So, will iron ore prices continue to rise? It seems short-term they could, but long-term it will depend on how quickly new mines are completed and opened.

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

Demand factor:

Iron ~~ore~~ ~~ore~~ ore is used in the production of steel, China is experiencing a construction boom, meaning it needs more steel and therefore increasing the demand for iron ore.

Supply factor:

A Major supplier of Iron ore do not ~~export~~ supply iron ore ~~of~~ any more (Brazil), ~~becas~~ because of a incident.

(b) Is the supply of iron ore likely to be price elastic or inelastic? (2 marks)

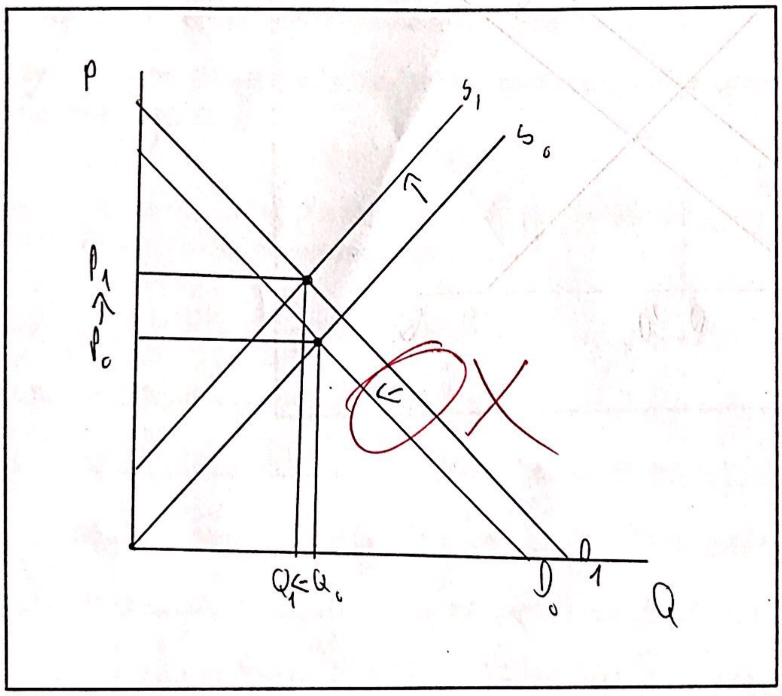
The supply of iron ore is likely to be inelastic because it is difficult to quickly increase production in response to price. The article suggest that iron ore prices will ~~be~~ depend on new mines being open in the long run, ~~which~~ therefore show that the supply of iron ore is price inelastic because it ~~can~~ is not responsive to price. (new mines have to be built to increase production)

(c) Describe and demonstrate using a demand and supply diagram, the changes in the iron ore market that had happened, according to the article. (4 marks)

What we can observe is that there is a decrease in supply of iron ore and a ~~decrease~~ increase in ~~supply of~~ Demand for iron ore. This causes excess demand at P_0, ~~then~~ the price mechanism move the price up to P_1 due to this shortage of supply, and this forms a new equilibrium at $P_1 Q_1$, when ~~compare~~ compared to the original equilibrium at $P_0 Q_0$ there is ~~[illegible]~~ ~~a~~ a decrease in quantity $(Q_0 \to Q_1)$ and increase in price $(P_0 P_1)$

3

Diagram:



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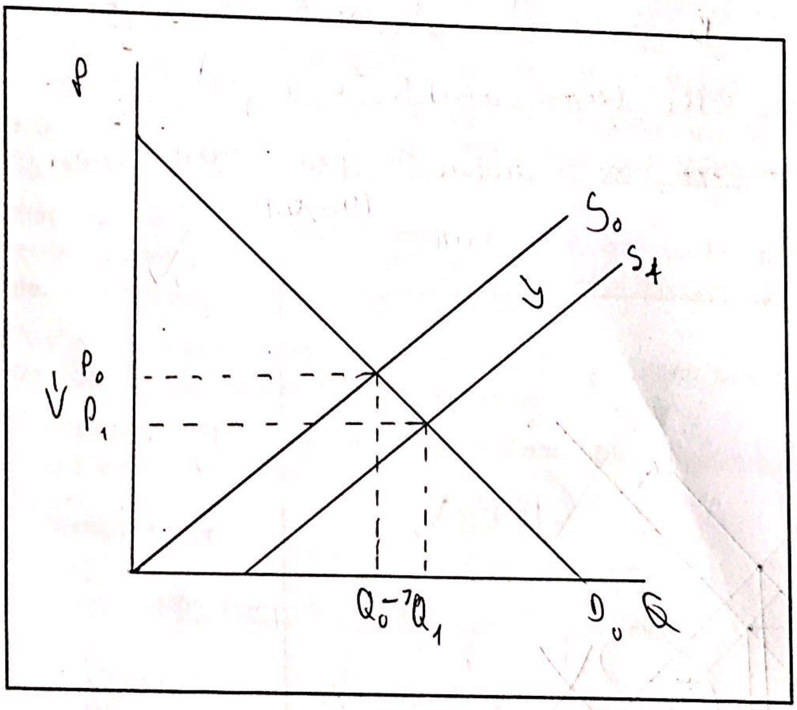
(d) Use evidence from the article to explain how changes in supply in the longer term will affect the iron ore price. Use a demand and supply diagram to support your answer. (4 marks)

The article suggested that in the longer term, there will be more mines built and completed. This increase the supply of iron ore as more mines can produce more iron ore. ~~This~~ At the ~~ori~~ original price of P_0, there will be an excess in supply of iron ore. This will cause the price will fall, causing the quantity supplied to fall and quantity demanded to rise for iron ore. Until a new equilibrium forms at P_1Q_1 where the new supply meet the original demand. ~~Finally~~ Compared to when the supply has not increase, ~~the~~ The overall ~~supp~~ quantity will rise and the price of iron ore to fall.

Diagram:



8

Question 26 **(12 marks)**

Elasticity in the market for Alcoholic Beverages

Many public policy issues are related to the consumption of alcoholic beverages, for example policies relating to under-age drinking, binge drinking and driving while drunk. Australian economists have estimated the relevant elasticities of demand for Australia. Information on price and income elasticities enables policy-makers to predict better the impact of new taxes on alcohol, or changes in consumer income levels, on the quantity of alcoholic beverages consumed.

Price elasticity of demand for beer	0.82
Price elasticity of demand for wine	0.82
Cross-price elasticity of demand between beer and wine	0.54
Income elasticity of demand for beer	1.04
Income elasticity of demand for wine	1.25

$0.82 = \frac{x}{\frac{10}{100}}$

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

by 8.2%

ii. If the quantity of wine demanded rose by 5.4% as a result of a 10% rise in the price of beer, calculate the cross elasticity of demand. (1 mark)

$\frac{Q \uparrow 5.4}{P \; 10}$

$\frac{\frac{5.4}{100}}{\frac{10}{100}} = 0.54$

iii. Circle the correct alternatives in the sentence below: (1 mark)

Beer and wine are **complements / substitutes** because the cross-elasticity of demand is **positive / negative.**

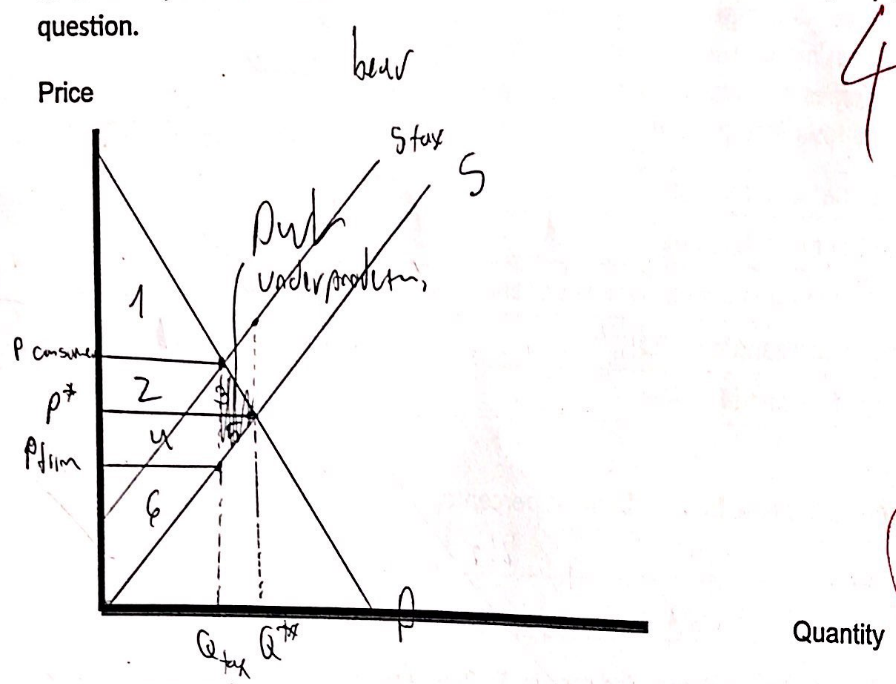
(b) The income elasticity of wine is higher than for beer. Explain what this means and suggest why it is higher for wine compared to beer. (3 marks)

The income elasticity of wine is higher than the income elasticity of ~~beer~~ beer means that people are more willing to switch ~~from~~ wine to other products compared to beer. Wine has a lot of substitutes, like beers, ~~as~~ so ~~its~~ ~~the~~ it is ~~the~~ likely to be elastic. Generally, ~~wine~~ beer are cheaper than ~~beer~~ wine so ~~the price elasticity~~ people spend a greater % of their income on wine, so they are more likely to ~~a~~ not buy it if $ some thing happen financially $, making it more elastic. Wine and beer are both consumed for entertainment and they are not a necessity; ~~a~~ so they are likely to be elastic. Overall, this mean that wine will have a higher income elasticity of demand for wine than beer, as when their income increase, they will ~~prefer to~~ buy more wine ~~than to than beer, and vice versa~~ as compared to beer.

See next page

(c) Assume the State Government has decided to impose a sales tax on beer. Use the data from the table to assist in demonstrating and discussing the burden of the sales tax on consumers and producers, and the revenue for it would generate for the government. In your answer, mention any information you are **not** given that you would need to properly answer the question. (6 marks)

4



But P firm < P*

From the data we can see that the price elasticity for beer is 0.82, which is below 1, so it has relatively inelastic demand, as shown by the steep curve. It is unknown that the price elasticity of supply for ~~beer~~ beer, but as beer is a manufactured product, it is ~~lik~~ likely to have a relatively elastic supply. The graph shows supply ~~is~~ ~~not~~ flat (not too flat) (I admit I should have drawn it flatter 😊) we can see that the tax raises the price paid by consumer (P consumer) and increase the cost of production by producers (P firm), which make the equivalent price supply of firm to be lower; Overall consumer lose area 2+3 and producers lose area 4+5. There is a decrease in quantity creating a deadweight loss of under production Area (3+5), but as beer ~~and~~ have a negative externality and the government want to decrease the consumption of ~~beer~~ beer, this tax has achieved it's desired effect. (Higher price by consumer make ~~them consume at a lower~~ ~~than~~ their quantity demanded fall, higher cost of production make supply go down ⇒, therefore make quantity go ~~down~~ down and price goes up. Government gets tax money from consumer and producers at Area 2+4 (consumers bears more burden of tax as their demand is more inelastic)

See next page

8

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 are very important to most governments. Indeed most government policies 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 however come at the cost of market efficiency. Some governments have tried to use subsidies to avoid the trade-off between equity and efficiency but this does not work, as subsidies usually reduce efficiency.

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

i. Vertical Equity (1 mark)

A welfare system that reduces poverty

ii. Horizontal Equity (1 mark)

Universal education

(b) Describe the trade-off between equity and efficiency that may exist when a government seeks to reduce poverty. (2 marks)

When the government seek to reduce poverty, ~~ver~~ vertical equity, ~~they~~ they will have ~~to~~ ~~to tax~~ to impose even more tax to fund these policies, this tax makes the market more inefficient. Another point is that people might rely on these welfare system and become lazy, exploit the system to not work. Overall, there may be a trade off where equity is increased (maybe) but the cost to efficiency of doing so is high. ~~And~~ The market become more inefficient, but equity increases as more people are lifted out of poverty and earn more income through supporting these policies. It does not produce at efficient economy, not efficient.

(c) Explain why subsidies are inefficient even though both consumers and producers benefit in terms of price and quantity. (3 marks)

2

When there is a subsidy, both consumer and producer benefit as a subsidy is an amount paid to producer to produce more. Consumer benefit through being able to buy at a lower price, producer benefit from being able to sell a higher (equivalent) quantity, but this causes over production of too many units with cost higher than benefit being produced, ~~that~~ these units should not be produced (not produce at efficient Qty). But these units are produced, wasting society's resources and causing over production.

Why though?

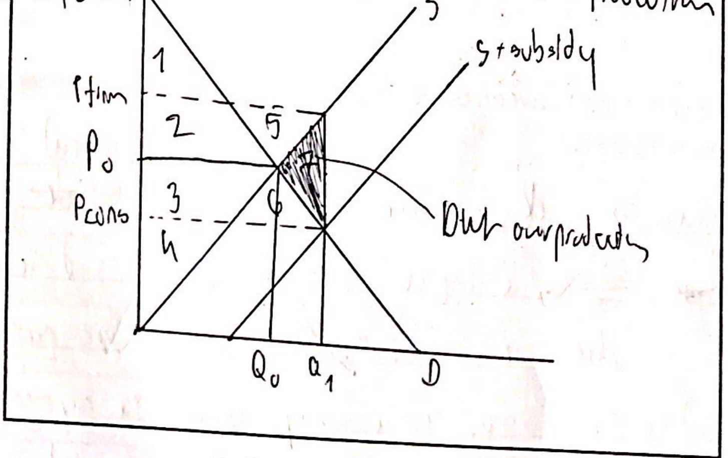
OWL

(d) By reference to a diagram (in the space below), demonstrate and explain how a subsidy can reduce market inefficiency. (5 marks)

2

In a competitive market, when at equilibrium $P_0 Q_0$, assuming that there are no externalities, ceteris paribus, the consumer surplus is at Area 1+2 and the producer surplus is at Area 3+4, at quantity Q_0 and price P_0. When there is a subsidy, firms are paid by the government to produce more, their surplus rise to Area 2+5+3+4, gaining area 2+5, while consumer buy at a lower price, their consumer surplus is at area 1+2+3+6, gain area 3+6. The market now is at quantity Q_1. Quantity Q_1 is higher than the efficient quantity at Q_0, this create a deadweight loss of over production of the product and an overall waste on resources on producing units with cost higher than benefits. As a result, this make the market inefficient because of over production. Does not produce at efficient quantity => inefficient

Diagram:



You dont answer the question!

End of Section Two

Section Three: Extended answer 40% (40 Marks)

This section contains three (3) questions. Answer any two (2) questions. Write your answers in the lined pages provided and number your answers clearly.

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: 80 minutes.

Question 28 **(20 marks)**

(a) Explain, with the use of examples, the non-price factors that can affect the level of demand and supply in a market. (10 marks)

(b) Use a demand / supply model to demonstrate and explain why a market operating at equilibrium is efficient. Use the concepts of marginal social benefit and marginal social cost in your answer. (10 marks)

Question 29 19 **(20 marks)**

(a) Distinguish, with the use of examples, between public goods, common resources and negative externalities and explain why they are associated with market failure. (12 marks)

(b) Discuss the policy options available to the government to deal with the market failure associated with public goods, common resources and negative externalities. (8 marks)

Question 30 16 **(20 marks)**

(a) Describe, with the use of some examples, the features of markets characterised by imperfect competition. (8 marks)

(b) Outline two anti-competitive behaviours used by firms and demonstrate with a model how significant market power can influence market efficiency. (8 marks)

(c) Discuss the role of government and the Australian Competition and Consumer Commission (ACCC) in ensuring greater efficiency in imperfectly competitive markets. (4 marks)

End of Questions

~~I chose the~~

Answer to Question 29 and 30

(29) Distinguish Public goods, common resources, negative externalities,
↳ Why market failure.
↳ Policies → Risks

Public Goods

Definition

a) Public goods are goods that are non ~~rival~~ rival in consumption and 11 non ~~exclud~~ excludable. This means that public ~~god~~ goods can be used at once ~~by~~ by more than one consumer at a time. But public goods are non excludable, meaning that firms cannot make the consumers of public goods to pay ~~consum~~ ~~extend~~ and/or stop people from consuming it for free. ~~This result~~ ~~result in firms~~ ~~The~~ There are still benefits to society in the consumption of public goods, but there are no market for public good as ~~no firm~~ firms ~~can't~~ cannot make people pay for the good. This result in an underproduction of public goods, ~~Creating~~ a deadweight loss. Under production means that there are more units with benefits bigger than cost that are yet to be produced. Causing market failure

examples?

Policy

b) 8 Government Response to public ~~god~~ goods can be ~~govt~~ government provision where the government make those public goods ~~the~~ themselves ~~or~~ or pay/contract someone else to produce it. This ensure that the good is produced. Since the government can make people pay for the consumption of those goods through taxes, they can produce it at the quantity best for society

RISK

A risk in this government response is that it can create some waste. As governments do not need to be profitable, the quality of production of these ~~publi~~ public goods produced by government may ~~is~~ not be high quality and is not produced at the lowest price. Governments also don't demand high enough from their employee (because they don't need to be innovative or profitable) so it create a problem of excessive employ cost. Overall this government response can have a risk of being inefficient. An example of this is street lights, they have benefit to society but firms can't make people pay for their use of a street light. So government produce or control the production of street lights.

Common resources

Definition

Common Resources are ~~goo~~ the things that are rival in consumption and non-excludable. ~~Com~~ Common Resources are usually natural resources that exist on earth. The resources exist out in nature and on earth and it is completely free to get as mother nature does not make us pay for these resources. These resources are rival in consumption as the consumption of these goods can not be consumed by more than one person at once. The problem with public goods?? is that everyone will try to consume it and ~~take~~ use it. This make the supply of these resources slowly ~~depletes~~ (depletes (no longer available)). An example of this is fish in the ocean where too many ~~fish~~ fishing boat try to catch fish in the ocean, overtime, there will be too much people trying to get the fish that there is no longer enough fish for everyone. Common resources have a problem of overproduction, where too much is produce that it waste resources that can be used for other things. This causes market failure of overproduction.

And we use too much effort getting fish

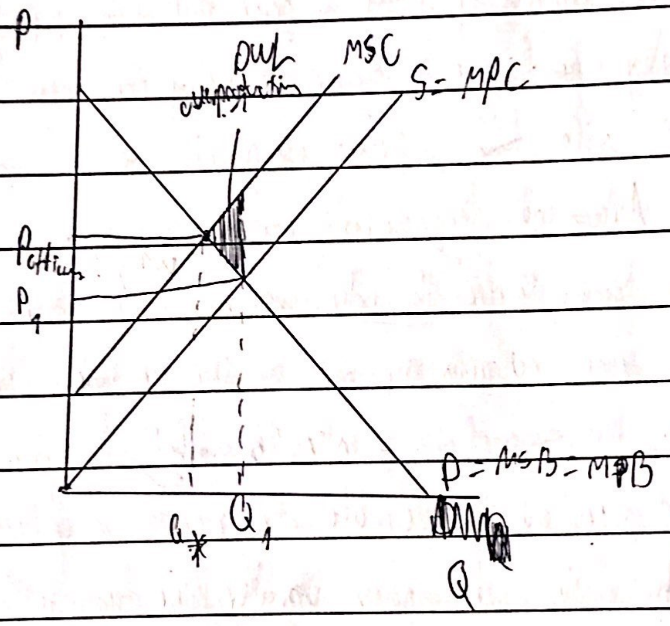
Policy ~~A~~ Government response to ~~public go~~ common resources is that they try to make these ~~public g~~ common resources from non-excludable to excludable. They try to stop people from consuming too much of it.

Risk The enforcement and monitoring to stop people from consuming ~~this~~ these resources can be expensive and very hard to do.

Negative Externalities

Negative externalities are ~~products~~ goods that ~~have~~ the consumption or production of it have a bad/negative effect ~~on~~ on other people. ~~Any~~ ~~An~~ A good with ~~an~~ negative production externality ~~means~~ means that the production of it is bad for the ~~peopl~~ other people, it effect other people badly. An example of this can be the production of energy through coal or a natural gas power plant. These ~~pp~~ powerplant ~~harm~~ pollute the environment and ~~harm~~ harm the health of other people. A negative consumption externality is ~~the~~ when ~~thes~~ the consumption of it effect other people like how the consumption of cars can pollute the environment and ~~eff~~ badly effect the health of ~~other~~ other people. ~~Government~~ Government can ~~the~~ respond to negative externalities through imposing taxes on ~~the production of thes~~ ~~of~~ goods with negative externalities. This taxes causes the ~~firms~~ firm's cost of production to rise ~~and consumers to pay more for the~~ therefore increase the price of that good and therefore decrease the quantity supplied of that good. A

As negative externalities have the problem of ~~ov~~ over production as shown in the graph below, where the quantity supplied is higher than the efficient quantity of ~~the product~~ when accounted for the societal cost and benefit. A tax will decrease the quantity to this efficient quantity and make the market more efficient. A risk to this government policy is that the government don't exactly know how ~~much~~ to tax, ~~and~~ if the tax is too high or not enough, it might make ~~it even~~ the market even more inefficient. ~~It~~



The graph here shows negative production externality for a ~~given~~ good. When accounted for the effect on other people, the good should be produced at Q^* ~~but~~ at the efficient quantity where MSC = MSB, ~~and~~ ~~where~~ but the market produces at D = S which is the ~~market~~ equilibrium, which produces a quantity higher than efficient quantity, causing an overproduction deadweight loss and market failure.

Question 30

- Market imperfect competition / Examples
- Anti competitive behaviour, Market efficiency
- ACCC

a) 6 In a market with imperfect competition, there is a small number of sellers and high number of buyers. Firms in imperfect competition are price makers, meaning they control the price and quantity produced. These markets usually have a high barrier of entry for new firms. ~~market power~~ An example of a market with imperfect competition is the market for air crafts. Boeing, Airbus and other aircraft manufacturing firms control the market because they are the only suppliers to that market. why? ~~They set~~ They set the price and quantity and there are a high barrier of entry for new ~~firms~~ firms to enter this market. what are they? This give Boeing and Airbus market power and therefore make the market inefficient as imperfect market with market power usually have firms setting prices higher without fearing that they might ~~lose~~ lose customers to ~~other~~ other competitor.

b) 6 Two anti competitive behavior: ~~Colt~~ Collusion, Merger and takeover

Collusion is ~~is~~ when competing firms ~~agree~~ forms an agreement with each ~~ot~~ others to not compete with each other. ~~A~~ Both firm can raise their prices or one firm can raise ~~their~~ their price without fearing their competition might lower their prices and take customers. ~~_~~ This make ~~consumers lose other firms new firms~~ harder ~~to compete with~~ This discourages competition → ~~A~~ make market inefficient as firms ~~do~~ no longer need to innovate ~~to get~~ hard to get customers as they can just raise their price and earn more

Merger and take over is a behavior that involves one ~~firm~~ firm taking over or buying up a smaller competing firm, or ~~the~~ two firms merge ~~to get~~ together to form a bigger firm. For the ~~both~~ latter behavior, the pool of resources between these two firms allow the one big ~~firms~~ firm to have alot of resources, therefore they can ~~the~~ use ~~or~~ economy of scale and produce things at a lower average cost compared to competitor, driving competitor out of market and/or make new firms harder to compete.

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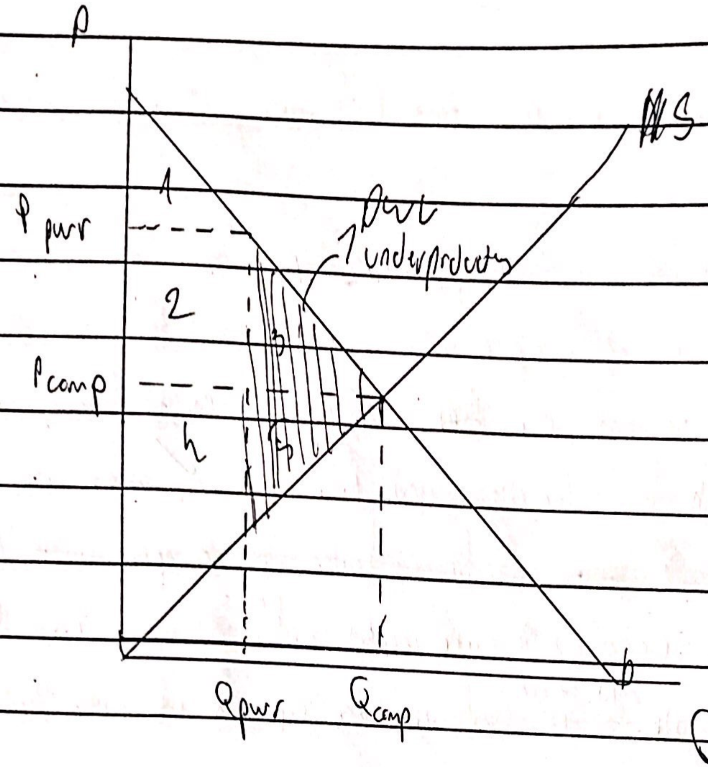

how much more?

At the competitive equilibrium, at ~~On~~ Pcomp Qcomp, it is where Demand curve meet supply curve. But when there is market power, the firm increase the price of the product and ~~past~~ supply less quantity. ~~The~~ The effect of this is that the consumer have to pay more and consume less, their consumer surplus goes from being Area 1+2+3 to only Area 1. The firm raise the price and only lose a ~~m~~ small amount of customer from the law of demand but they earn a bigger surplus, ~~of the~~ firms goes from area 4+5 to Area 2+4. ~~A~~ The loss of area 5 is smaller than the gain of Area 2. This overall make consumers lose on ~~cas~~ consumer surplus and firms gain from more producer surplus.

But this make the market inefficient because there are ~~more~~ units with benefits higher than cost not produced, this underproduction Deadweight loss of Area ~~2+3~~ 3+5 is a loss to society.

(consumer also lose Area 2+3)

ACCC is the Australian Competition and Consumer Commission. The ACCC ~~roles~~ role is to monitor ~~market~~ and regulate market to prevent, stop and punish anti competitive behaviors and control market power. The ACCC monitor firms and market for Collusion, Exclusive Deals or takeover and Merger and behaviors that causes too much of a loss to competition. The ACCC investigate for illegal behavior and punish firms. If the firm agree, they are fined, if the firms do not agree, the firms might go to court. Overall, the ACCC help the market from having any firm with too much market power controlling the price and quantity. As Antic competitive behaviors can lead to market power which can lead to consumers having to pay more and consume less which lead to a ~~seat~~ decrease in consumer surplus and and increase in producer surplus. This market power create or a underproduction deadweight loss which means that there are more ~~to~~ units ~~to~~ with benefits bigger than cost ~~out~~ that are not produced

=> In a efficient ~~most~~ market, and ACCC try to prevent that from happening, and they try to ~~maintain~~ maintain efficient, free market