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NZQA

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Level 1 Economics, 2019

90986 Demonstrate understanding of how consumer, producer and/or government choices affect society, using market equilibrium

2.00 p.m. Tuesday 26 November 2019
Credits: Five

Achievement	Achievement with Merit	Achievement with Excellence
Demonstrate understanding of how consumer, producer and/or government choices affect society, using market equilibrium.	Demonstrate in-depth understanding of how consumer, producer and/or government choices affect society, using market equilibrium.	Demonstrate comprehensive understanding of how consumer, producer and/or government choices affect society, using market equilibrium.

Check that the National Student Number (NSN) on your admission slip is the same as the number at the top of this page.

You should attempt ALL the questions in this booklet.

If you need more room for any answer, use the extra space provided at the back of this booklet.

Check that this booklet has pages 2–8 in the correct order and that none of these pages is blank.

YOU MUST HAND THIS BOOKLET TO THE SUPERVISOR AT THE END OF THE EXAMINATION.

TOTAL

ASSESSOR'S USE ONLY

QUESTION ONE: MARKET EQUILIBRIUM

Summarised below is the market for taxi rides in Auckland.

Market for taxi rides in Auckland (weekly)		
Price ($ / km)	Market supply (000 rides)	Market demand (000 rides)
1.80	150	450
2.00	200	400
2.20	225	350
2.40	250	250
2.60	300	200
2.80	400	100

(a)   Use the information from the table above to add the market demand curve to the graph below.

(b)   Use dotted lines to indicate the market equilibrium price (P_e) and quantity (Q_e).

Market for taxi rides in Auckland (weekly)

(c)   Show the market situation if the price of taxi rides in Auckland was $2.60/km.

In your answer:
- use dotted lines to show the quantity demanded (label this Q_d)
- use dotted lines to show the quantity supplied (label this Q_s)
- fully label either the resulting surplus or shortage.

(d) Use the data from the graph on page 2 to explain the resulting surplus or shortage.

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(e) Explain who would initiate the market change to restore equilibrium, and why.

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(f) Fully explain the changes required to restore market equilibrium, in terms of quantity demanded and quantity supplied.

In your answer, refer to:
• figures from the graph on page 2
• law of demand
• law of supply.

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(g) Explain the market situation where the equilibrium is restored.

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QUESTION TWO: MAXIMUM PRICE

A ride-sharing company, Uber, offers rides to consumers at much cheaper rates than competitors, depending on how busy the market for rides is.

When there was not much demand for an Uber ride, the cost would be cheaper. However, when demand was high, Uber-ride prices would be more expensive.

In order to protect consumers from Uber prices 'surging' out of control at busy times, governments could introduce a maximum price for an Uber ride.

Market for Uber rides in New Zealand (weekly)
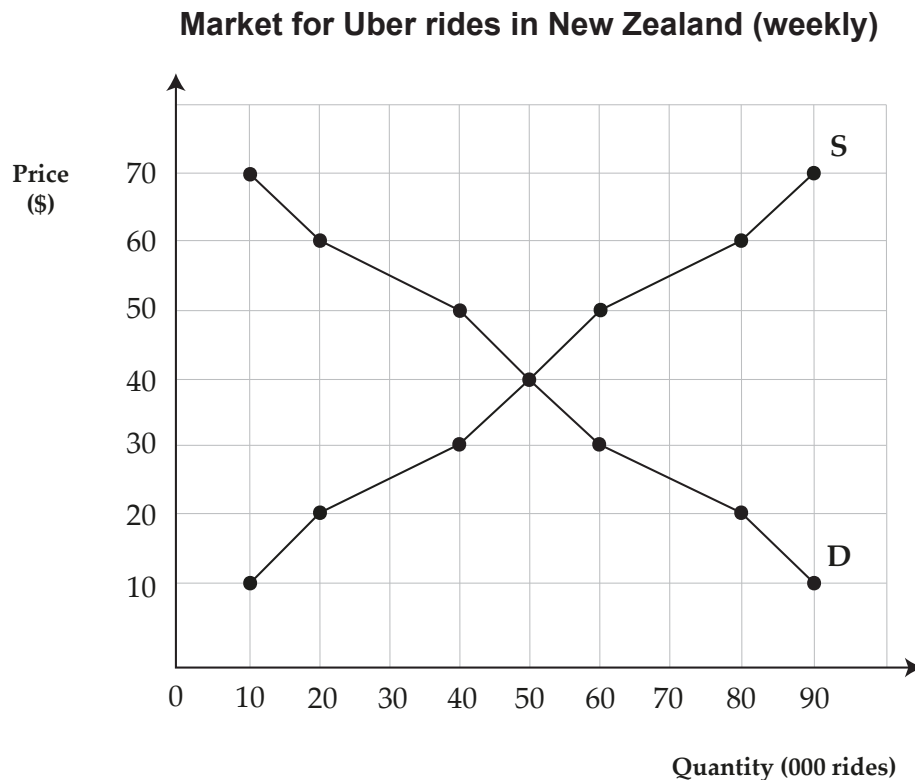
(a)   On the graph above, show the changes to the quantity demanded and quantity supplied of Uber rides, **assuming a maximum price of $30** is now being imposed in New Zealand.

 •   Draw a horizontal line to show the maximum price that the government has set (label the maximum price line as P_{max}).
 •   Use dotted lines to show the equilibrium price and equilibrium quantity before the maximum price (label as P_e and Q_e).
 •   Use dotted lines to show the new quantity demanded by consumers after the maximum price (label as Q_d).
 •   Use dotted lines to show the new quantity supplied by Uber drivers after the maximum price (label as Q_s).
 •   Accurately label the resulting surplus or shortage.

(b) Use data from the graph on page 4 to fully explain the impact of a maximum price.
In your answer:
- explain the resulting surplus or shortage
- explain a possible flow-on effect that might happen as a result of the surplus or shortage.

(c) Use data from the graph on page 4 to fully explain the change in price and quantity as a result of the maximum price.

(d) Use data from the graph on page 4 to calculate and fully explain the change in consumer spending on Uber rides in New Zealand, as a result of the maximum price.

QUESTION THREE: SUBSIDY

> Another way to get from one place to another is to use public transport. In order to encourage the use of public transport, the government has decided to subsidise the use of buses in Christchurch.

(a) On the graph below, show the effect of a 50c subsidy on each bus ride in Christchurch. Label the new curve as S_1.

Use dotted lines to show:

- the original equilibrium price (label as P_e) and equilibrium quantity (label as Q_e).
- the new equilibrium price (label as P_{e1}).
- the new equilibrium quantity (label as Q_{e1}).

Market for bus rides in Christchurch (daily)
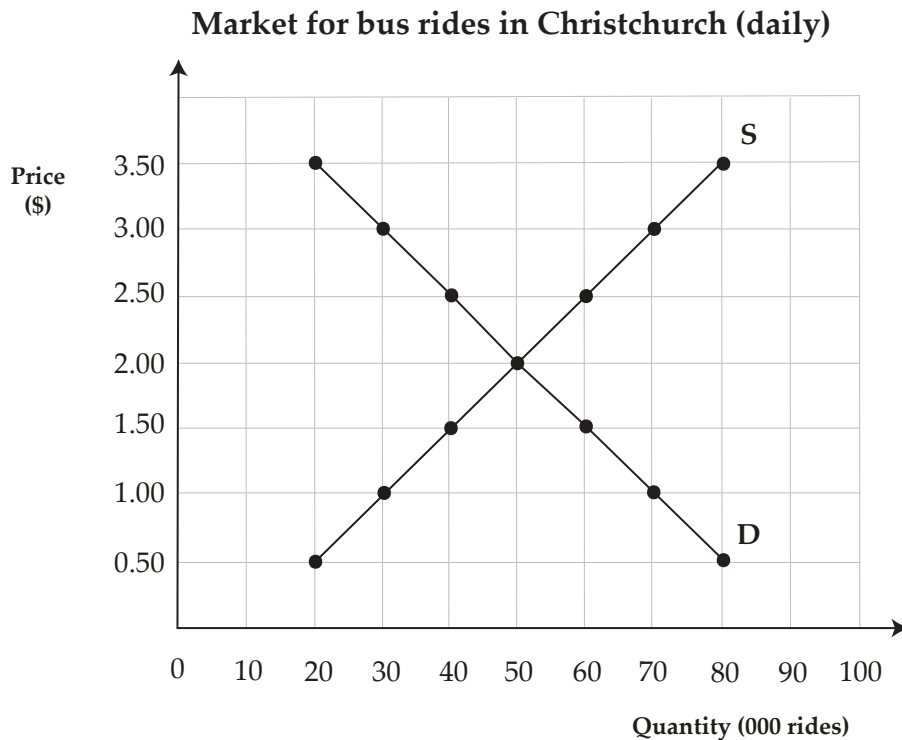
(b) Referring to the graph above, identify and calculate:

(i) the quantity consumers buy before and after the subsidy

Before: _____ rides.   After: _____ rides.

(ii) the price consumers pay before and after the subsidy

Before: $ _____ per ride.   After: $ _____ per ride.

(iii) the price producers receive before and after the subsidy

Before: $ _____ per ride.   After: $ _____ per ride.

(iv) the total spending per day by the government as a result of this subsidy.

$ _____

(c) Using data from the graph on page 6 and your calculations, fully explain the difference in price to both consumers and producers. Include changes in total consumer spending and producer revenue in your answer.

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(d) Using data from the graph on page 6 and your calculations, fully explain the effect of the public transport subsidy on the government in both the short term and the long term.

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(e) Fully explain a flow-on effect to consumers as a result of the public transport subsidy.

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Extra space if required.
Write the question number(s) if applicable.

QUESTION
NUMBER

90986