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90983



## Level 1 Economics, 2012

# 90983 Demonstrate understanding of consumer choices, using scarcity and/or demand

9.30 am Tuesday 27 November 2012 Credits: Four

Achievement	Achievement with Merit	Achievement with Excellence
Demonstrate understanding of consumer choices, using scarcity and/or demand.	Demonstrate in-depth understanding of consumer choices, using scarcity and/or demand.	Demonstrate comprehensive understanding of consumer choices, using scarcity and/or demand.

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 space for any answer, use the page(s) provided at the back of this booklet and clearly number the question.

Check that this booklet has pages 2–11 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

You are advised to spend 60 minutes answering the questions in this booklet.

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#### QUESTION ONE: CONSUMER CHOICE

Alexi is 22 years old. He has recently completed university and is about to finish his first year of work. He is planning to use two weeks leave at the end of the year to go overseas.

Three places he would like to travel to, in order of preference, are Samoa, China, and France. Alexi has budgeted \$50 each week to put aside for his holiday.

Complete questions (a) and (b) to **fully explain** how scarcity and values affect Alexi's consumer choice.

(a) Discuss why Alexi is not able to go to all three holiday destinations.

In your answer, you should refer to the resource material, and link the following:

- limited means
- choice

•	opportunity cost.

Alexi regularly donates money to various charities. However, he is finding that saving for his holiday has meant he is not able to give so generously when collectors ask him for a donation

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Dis	cuss how Alexi's values determine his spending decisions.
In y	our answer, you should:
•	explain what is meant by values
•	describe a value Alexi demonstrates when giving to charity
•	describe a value Alexi demonstrates when choosing to go on holiday
•	explain how Alexi's values are conflicting
•	explain TWO possible compromises Alexi might make to resolve this conflict.

#### QUESTION TWO: LAW OF DEMAND

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Alexi enjoys catching up with his friends over coffee. Shown below is his demand schedule for cups of coffee at the local cafes.

Alexi's weekly demand schedule for cups of coffee						
Price per cup (\$)	Quantity demanded (cups)					
3.00	10					
3.50	8					
4.00	5					
4.50	3					
5.00	2					

Complete questions (a) to (c) to **fully explain** the law of demand in the context of Alexi's demand for coffee at the local cafes.

(a) Draw a fully labelled demand curve on the graph below using the information from the demand schedule above.

Title: _					

(b) On the graph above, show the effect of the price of coffee increasing from \$3.50 to \$4.50 per cup. Fully label your changes.

ו עכ	our answer, you should:	
. , .	identify the change in the number of cups of coffee that Alexi will consume	
	refer to the law of demand using data from the graph on page 4	
	explain TWO flow-on effects this price change will have for Alexi.	
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### QUESTION THREE: PRICE OF OTHER GOODS AND SERVICES

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Alexi usually has a muffin with his coffee.

Discuss how the event shown in Graph A below will affect Alexi's demand for muffins.

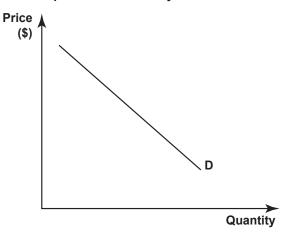
In your answer, you should:

- explain the economic relationship between coffee and muffins
- show changes in sketch Graph B below
- refer to both sketch graphs in your explanation
- explain TWO flow-on effects the change in demand for coffee and muffins will have for Alexi.

Graph A: Alexi's weekly demand for coffee

Price (\$)
P
P1
Q Q1 Quantity (cups)

Graph B: Alexi's weekly demand for muffins



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#### QUESTION FOUR: EFFECTS OF CHANGE IN INCOME

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At 22 years of age, Alexi mainly stayed at budget hotels and backpacker accommodation when he went on holiday.

Ten years on, Alexi now has a young family, and has had a promotion and a substantial pay increase. He is planning their next overseas holiday.

**Discuss** the effect an **increase** in Alexi's income and a change of circumstances would have on his demand for **holiday accommodation**.

In your answer, you should:

- use appropriate **economic terms** to describe different types of holiday accommodation available to Alexi and his family
- explain how his demand for holiday accommodation might change

•	explain <b>why</b> his demand for holiday accommodation might change fully explain TWO flow-on effects this change in demand may have for Alexi and his family.						

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