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90986



Level 1 Economics, 2012

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

9.30 am Tuesday 27 November 2012 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 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.

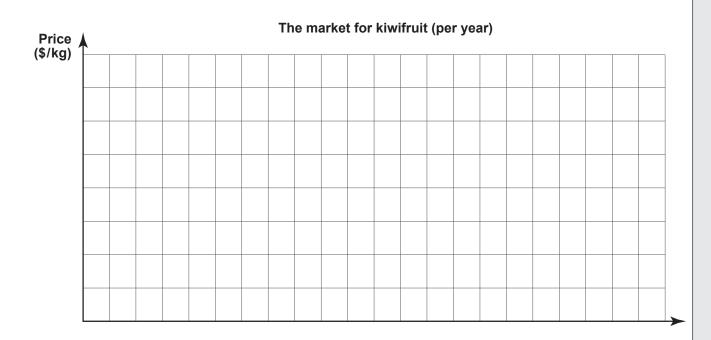
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QUESTION ONE: MARKET EQUILIBRIUM

The demand and supply of kiwifruit are summarised below.

At \$3.00 a kilogram, the market demand was 10 000 tonnes a year. At \$4.00 consumers would buy 8 000 tonnes, at \$5.00 the market demand would be 4 500 tonnes. If the price increased a further 20%, New Zealand consumers on the whole indicated that they would be willing and able to buy 2 000 tonnes a year, while supply was 10 000 tonnes.

Market for kiwifruit (per year)				
Price (\$ per kg)	Market supply (tonnes)	Market demand (tonnes)		
3.00	7 000			
4.00	8000	8000		
5.00	9000	4500		
	10 000			



Quantity (tonnes)

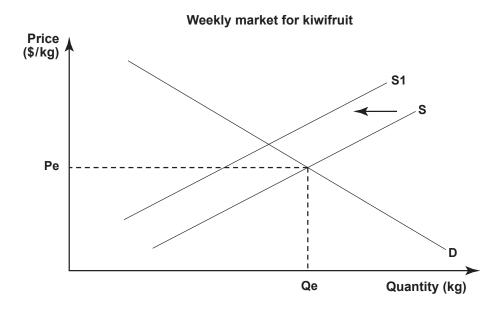
Complete questions (a) to (c) to **fully explain** market equilibrium in the context of kiwifruit.

- (a) Use the information in the resource box above to:
 - complete the market schedule
 - complete the market graph
 - use dotted lines to indicate the market equilibrium price (Pe) and quantity (Qe).

(b)	On the graph you drew on page 2, show the market situation if the price of one kilogram of kiwifruit was \$5.00.						
	 You must: 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 the resulting surplus or shortage. 						
(c)	Fully explain how the market would react to this situation in order to restore equilibrium.						
	 In your answer, you should: explain the change in market price explain the change in quantity demanded and quantity supplied refer to your graph and the data given. 						

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The graph below shows the weekly market for kiwifruit. The supply curve has been shifted to show a decrease in supply.



New Study: New Zealand kiwifruit help reduce cold symptoms

A study published in the British Journal of Nutrition has reinforced the health and nutritional benefits of New Zealand's kiwifruit, confirming that regular intake of the fruit can help reduce the symptoms of a cold.

Adapted from: http://business.newzealand.com/emea/en/news-and-events/ news/new-study-nz-gold-kiwifruit-help-reduce-cold-symptoms/

Complete questions (a) and (b) to **fully explain** the combined effect of the changes in demand and supply on kiwifruit growers.

(a) Show the **combined effect** of the changes in demand and supply on the market for kiwifruit on the graph above.

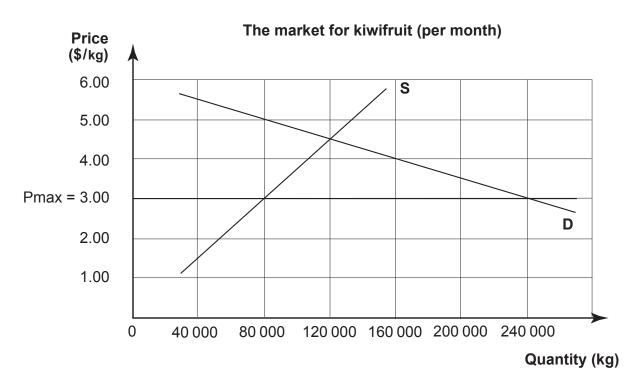
You must:

- show a change in demand that may result from the article above
- use dotted lines to show the resulting new price and/or new quantity
- fully label the changes.

Full	y explain the effect of the combined changes in demand and supply on kiwifruit growers.	A
In yo	explain ONE possible reason for the decrease in supply explain the change you made to the demand curve explain the combined effect on the resulting new price and/or new quantity explain the effect on the kiwifruit growers' revenue refer to the graph on page 4.	

The proven health benefits and rising prices of kiwifruit may prompt the government to consider implementing a maximum price control.

The graph below shows the effects of a maximum price of \$3.00 per kilogram on the market for kiwifruit.



Complete questions (a) and (b) to **fully explain** the effect of introducing a maximum price on kiwifruit consumers.

(a) On the market for kiwifruit graph above, show the changes to quantity demanded and quantity supplied as a result of the maximum price.

You must:

- use dotted lines to show the equilibrium price and quantity before the maximum price.
 Label as Pe and Qe
- use dotted lines to show the new quantity demanded by consumers after the maximum price. Label Qd
- use dotted lines to show the new quantity supplied by kiwifruit growers after the maximum price. Label Qs
- fully label the resulting surplus or shortage.

(b)	Fully explain the effects of introducing a maximum price on kiwifruit consumers.	ASSESSOR'S USE ONLY
	 explain the change in price explain the change in quantity demanded explain the change in consumer spending on kiwifruit explain TWO flow-on effects on society in general refer to the graph or data on page 6. 	

QUESTION FOUR: SUBSIDIES

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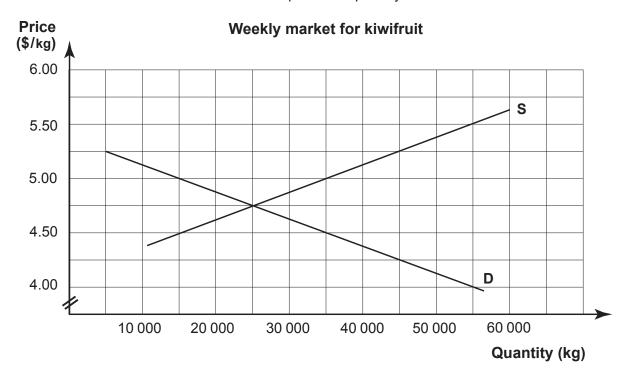
Further studies showing the extensive health benefits of kiwifruit may prompt the Government to consider providing a subsidy to the industry.

Complete questions (a) to (c) to **fully explain** the effect of a subsidy on different sectors of the economy.

(a) On the graph below, show the effect of a \$0.50 subsidy per kilogram on the market for kiwifruit.

You must:

- use dotted lines to show the original equilibrium price and equilibrium quantity. Label as
 Pe and Qe
- use dotted lines to show the new equilibrium price. Label as P1
- use dotted lines to show the new equilibrium quantity. Label as Q1.



- (b) Referring to the graph above, identify and calculate the:
 - (i) Quantity consumers buy before and after subsidy

Before: _____ kg After: _____

(ii) Price per kilogram **consumers pay** before and after subsidy

Before: \$ per kg After: \$ per kg

(iii) Price per kilogram kiwifruit growers receive before and after subsidy

Before: \$_____ per kg After: \$_____ per kg

(iv) Total cost per week to the Government of this subsidy. (Show working).

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(c)	Fully explain how a subsidy on kiwifruit might affect different sectors of the economy.	ASSESSOR'S USE ONLY
	 In your answer, you should: explain the change in price to the consumer explain the change in price to the kiwifruit growers explain the immediate effect on the Government explain any possible longer-term benefit to the Government refer to the graph on page 8. 	

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