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Level 1 Economics 2021

90985 Demonstrate understanding of producer choices using supply

Credits: Three

Achievement	Achievement with Merit	Achievement with Excellence
Demonstrate understanding of producer choices using supply.	Demonstrate in-depth understanding of producer choices using supply.	Demonstrate comprehensive understanding of producer choices using supply.

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.

Do not write in any cross-hatched area (░░░). This area may be cut off when the booklet is marked.

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

QUESTION ONE: The law of supply

> *The Clean Shop* sells hand cleaning products. *The Clean Shop*'s weekly supply of bottles of hand sanitiser will depend on the price.
>
> When the price is $1, *The Clean Shop* only just covers its costs and is therefore willing to supply only 50 bottles of hand sanitiser. This increases to 150 bottles when the price increases by $1. At $3, *The Clean Shop* is willing to supply 250 bottles. The quantity increases by 100 bottles when the price increases to $4. If the price increases by one more dollar, *The Clean Shop* will be willing to supply an additional 150 bottles.
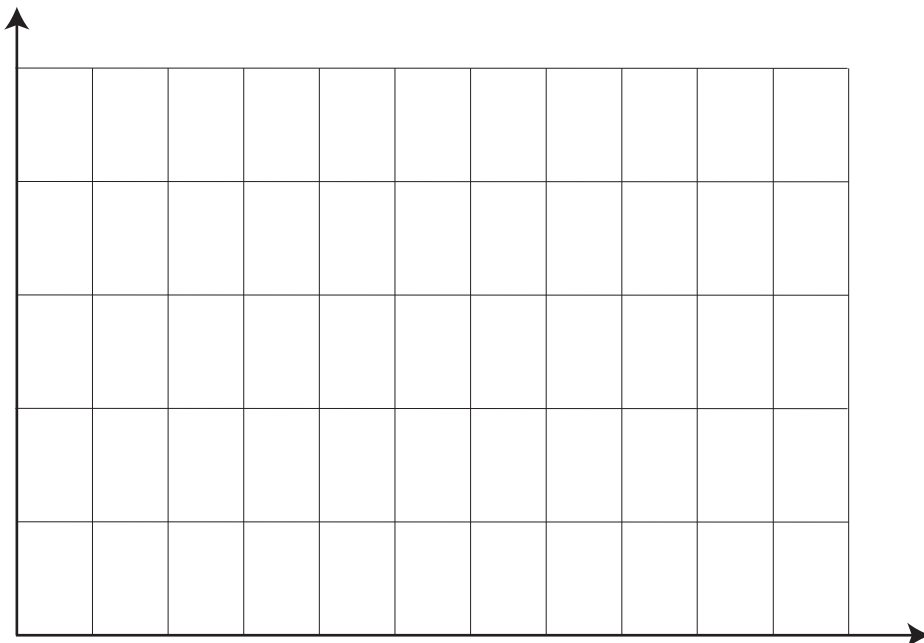
(a) (i) Use the information above to complete *The Clean Shop*'s weekly supply schedule, below.

The Clean Shop's weekly supply schedule for bottles of hand sanitiser

Price ($)	Quantity (bottles)
1	
	150
3	250
4	
	500

(ii) Use your completed supply schedule, above, to draw *The Clean Shop*'s weekly supply curve for hand sanitiser on the grid, below.

Title: _____

(b) On the graph created in (a), show the effect of an increase in the price from $2 to $4 per bottle of hand sanitiser. Label all your changes.

(c) How does the law of supply affect *The Clean Shop*'s supply of hand sanitiser when the price increases from $2 to $4 per bottle? In your answer, refer to the data or graph on page 2.

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(d) What does *ceteris paribus* mean? Give a definition with examples.

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(e) Explain the reason for the law of supply in the context of *The Clean Shop*'s supply of hand sanitiser.

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QUESTION TWO: Technology

> *The Clean Shop* invests in a new bottling machine that can process bottles at a faster rate.

(a)   On the sketch graph below, show how the new bottling machine is likely to affect *The Clean Shop*'s supply of hand sanitiser. Fully label all changes.

The Clean Shop's weekly supply of hand sanitiser (bottles)

Price ($) — vertical axis

S

Quantity supplied (bottles) — horizontal axis

(b)   How is the new bottling machine likely to affect *The Clean Shop*'s supply of hand sanitiser? Use the graph from (a) and explain how the new bottling machine is linked to:
- productivity
- profitability
- the supply of hand sanitiser.

(c) Explain a flow-on effect that this change in supply might have for *The Clean Shop*.

QUESTION THREE: Related good

The Clean Shop also produces liquid hand soap.

(a)   Explain the economic relationship between hand sanitiser and liquid hand soap.

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(b)   On the graphs below, show how a decrease in the price of hand sanitiser will affect *The Clean Shop's* supply of both hand sanitiser and liquid hand soap. Label all changes.

The Clean Shop's weekly supply
of hand sanitiser

Price
($)

S

Quantity supplied (bottles)
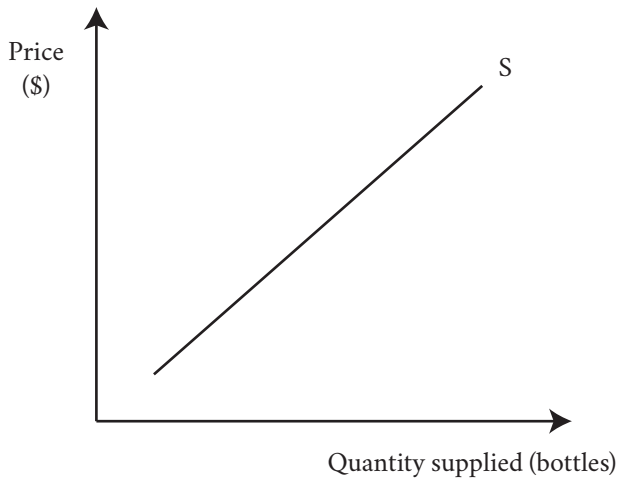
The Clean Shop's weekly supply
of liquid hand soap

Price
($)

S

Quantity supplied (bottles)
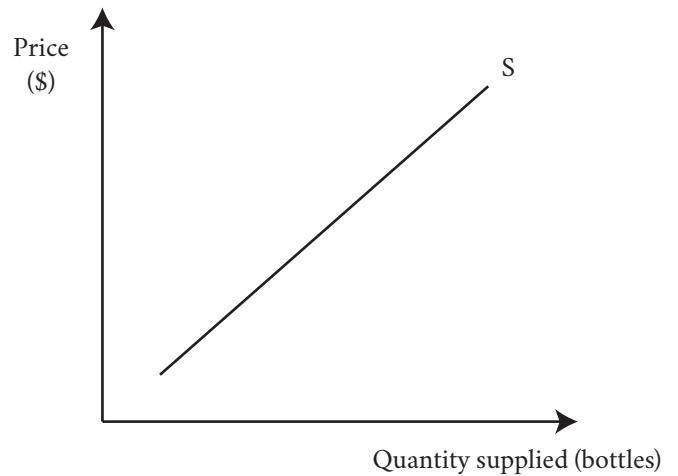
(c)   How will *The Clean Shop's* supply of hand sanitiser be affected by a decrease in the price of hand sanitiser? Refer to the relevant graph from (b) in your answer.

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(d) How will *The Clean Shop*'s resources be affected by a decrease in the price of hand sanitiser?

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(e) How might a decrease in the price of hand sanitiser affect *The Clean Shop*'s supply of liquid hand soap? Refer to the graphs from (b).

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(f) Explain TWO flow-on effects that this change in the price of hand sanitiser might have for *The Clean Shop*.

(1) _____

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(2) _____

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

QUESTION NUMBER	

90985