

2018 YEAR 11 ECONOMICS ASSESSMENT 1

**Demand and Supply ANSWERS**  Weight ( 7.5% )

**Section 1: Multiple Choice** **12 Marks**

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| 1. | An expansion along the demand curve would be caused by | |
|  | (a) | A change in the level of disposable income. |
|  | (b) | A change in price |
|  | (c) | A change in technology |
|  | (d) | A change in the price of inputs |
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| 2. | A rational or sensible consumer aims to: | |
|  | (a) | Secure the highest level of satisfaction from their available income. |
|  | (b) | Buy as many low cost articles as their income will allow. |
|  | (c) | Avoid purchasing expensive goods and services. |
|  | (d) | Purchase a wide range of goods. |
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| 3. | Which of the following is **not** a trait of a market economy? | |
|  | (a) | Private property rights |
|  | (b) | Consumers and producers act to further their own interests |
|  | (c) | The government allocates resources to their most efficient use |
|  | (d) | Competition within markets |
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| 4. | Demand represents the quantity of goods or services which buyers: | |
|  | (a) | Are willing to offer for purchase at any given price. |
|  | (b) | Will purchase in response to a change in their income. |
|  | (c) | Will require firms to produce in order to satisfy their need to make a profit. |
|  | (d) | Are willing and able to purchase at a given price at a given point in time. |
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| 5. | If supply increases while demand stays the same, the change in equilibrium price and quantity would be that: | |
|  | (a) | Equilibrium price would decrease and equilibrium quantity will decrease. |
|  | (b) | Equilibrium price would decrease and equilibrium quantity will increase. |
|  | (c) | Equilibrium price would increase and equilibrium quantity will decrease. |
|  | (d) | Equilibrium price would increase and equilibrium quantity will increase. |
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| 6. | Which of the following would cause a contraction in demand for chocolate? | |
|  | (a) | A decrease in the price of chocolate |
|  | (b) | A rise in real incomes |
|  | (c) | A decrease in the price of cocoa beans |
|  | (d) | An increase in the price of chocolate |

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| 7. | Given the following situation as shown by the diagram, which of the following will occur? | |
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|  | (a) | Demand will increase |
|  | (b) | Downward pressure is applied to prices |
|  | (c) | A shortage exists |
|  | (d) | An economy must be in a boom |
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| 8. | If the equilibrium price for high definition televisions increases, then | |
|  | (a) | Demand may have decreased while supply has remained unchanged. |
|  | (b) | Demand may have stayed the same while supply has increased. |
|  | (c) | Supply may have decreased while demand has remained unchanged. |
|  | (d) | Supply may have increased while demand has decreased. |

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| 9. | Assuming that bread and butter are complementary goods and that margarine and butter are substitutes, which of the following situations is most likely to be true? | |
|  | (a) | If the price of bread rises the demand for margarine and butter will both increase. |
|  | (b) | If the price of butter rises, the demand for margarine will increase and the demand for bread will decrease. |
|  | (c) | If the price of margarine rises, the demand for butter will decrease and the demand for bread will fall. |
|  | (d) | If the price of bread falls, the demand for margarine and butter will fall. |
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| 10. | A movement from equilibrium point **k** to **n** would be the result of | |
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|  | (a) | an increase in supply and contraction in demand |
|  | (b) | an increase in supply and expansion in demand |
|  | (c) | a decrease in supply and contraction in demand |
|  | (d) | a decrease in supply and expansion in demand |

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| 11. | The factors that can shift the demand curve include: | | |
|  |  | (i) | Level of disposable income |
|  |  | (ii) | Price of the good or service |
|  |  | (iii) | Tastes and Preferences |
|  |  | (iv) | Costs of production |
|  |  | (v) | The price of substitute and complement goods or services |
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|  | (a) | (i), (ii) and (v) | |
|  | (b) | (ii), (iv) and (v) | |
|  | (c) | (i), (iii) and (v) | |
|  | (d) | (i), (iii), (iv) and (v) | |
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| 12. | The following diagram illustrates the market for child-care services. A shift in demand from D to D1 is best explained by: | | |
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|  | (a) | a decrease in the number of young families | |
|  | (b) | an increase in child-care subsidies offered by the government | |
|  | (c) | a reduction in available staff and facilities for child-care | |
|  | (d) | an increase in the price of child-care | |
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**Section B: Short Answer / Data analysis 12 marks**

13. Read the artice and complete the questions which follow.

**Iron Ore Producers concerned about their future**

The iron ore price is currently at $75.00 US compared to its price of $168.00 US in 2011. A slowdown in Chinese economic growth has caused a reduction in the amount of steel needed to construct new buildings and factories. In Australia, many iron producers between 2007 and 2012 increased their capacity and developed new mines and this has combined with the slowdown in Chinese economic growth to lower the price of iron ore. However, China has recently announced increased spending on infrastructure such as high speed rail and global economic growth has improved over the last year.

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| a. | i | Describe the relationship between the demand for steel and the demand for iron ore.  (2 marks) | |
|  |  |  | Marks |
|  |  | Derived demand | 1 |
|  |  | Iron ore is a factor of production of steel | 1 |
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|  | ii | Explain how this relationship differs from the relationship between cars and petrol  (2 marks) | |
|  |  |  | Marks |
|  |  | Petrol is a complement good for cars | 1 |
|  |  | They are consumed independently of each other | 1 |
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| b. | With the aid of an appropriate diagram, explain why the price of iron ore has fallen  (4 marks) | | |
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|  | Diagram: | | |
|  | * All axes are labelled – ½ mark * Shifts and movements are labelled – ½ mark * Diagram shows a leftward shift in demand and a rightward shift in supply – ½ mark for each shift | | |
|  | Explanation: | | |
|  | * Global economic growth has decreased, leading to a decrease in demand and a leftward shift in the demand curve – ½ mark * Surplus results, causing downward pressure on prices and a contraction in supply – ½ mark | | |
|  | * Increased production of iron ore has resulted in an increase in supply and a rightward shift in supply – ½ mark * There is a surplus, causing downward pressure on prices and an expansion in demand – ½ mark | | |
|  | Overall, prices would fall. | | |
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| c. | With the aid of appropriate diagram, describe how the the market for iron ore is likely to be affected by an increase in global economic growth.  (4 marks) | | |
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|  | Diagram – 1 mark:   * Correctly drawn axes * Rightward shift in demand | | |
|  | Explanation:   * Increased global economic growth will increase demand for iron ore – ½ mark * Increased demand is indicated by a rightward shift in the demand curve – ½ mark * At existing prices, there is now a shortage – ½ mark * In response to the shortage, there will be upward pressure on prices and an expansion in supply – ½ mark * The new equilibrium prices will be higher and equilibrium quantity will also increase – 1 mark | | |
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