

**Year 11 ATAR Economics Unit 1 Examination**

**Marking Guide 2018**

**Section 1 (24 marks)**

1 C

2 A

3 B

4 C

5 D

6 B

7 D

8 A

9 C

10 B

11 D

12 B

13 C

14 C

15 D

16 A

17 C

18 B

19 B

20 A

21 C

22 B

23 D

24 A

**Section 2 (36 marks)**

**Question 25 (12 marks)**

|  |  |
| --- | --- |
| a. D/S diagram showing equilibrium at $5 & 5 million  Consumer expenditure = $25 million | 1 mark  1 mark |
| b. Any **TWO** relevant factors affecting demand – need to explain not just list - 1 mark each  1. Preferences/tastes – esp during summer months, rockmelons more popular fruit  2. Price of other goods e.g. price of substitute fruit such as other melons  3. Income – rockmelons relatively expensive fruit so income would be important  Any **TWO** relevant factors affecting supply – 1 mark each  1. Weather conditions – affects growing conditions  2. Costs of production e.g. wages, irrigation, fertiliser  3. Number of growers  4. Technology | 1 mark  1 mark  1 mark  1 mark |
| c. The Listeria outbreak will cause a **decrease in demand** – the D curve will shift to the left decreasing both equilibrium price & qty. Illustrate on the diagram.  Producers’ revenue will decrease. | 1-2 marks  1 mark |
| d. An obvious substitute would be a different melon e.g. watermelon or honeydew etc.  The demand for the substitute good would increase, shifting the D curve to the right – increasing price & qty – show on diagram | 1 mark  1-2 marks |

**Question 26 (12 marks)**

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| a. i. $20 & 600  ii. $25 (TR = $12,500)  Price elasticity of demand = 1. | 1 mark  1 mark  1 mark |
| b.i. Need to get all values correct for the 2 marks:  From the top row: 1000, 800, 600, 400, 200, 0, 0, 0, 0  ii. $30 & 400 (see table below)  iii. Tax revenue = $6,000 ($15 x 400)  iv. Price rises from $20 to $30. Qty falls from 600 to 400  PED = 200/600 x 20/10 = 0.67  D is price inelastic | 1-2 marks  1 mark  1 mark  1-2 marks |
| c. Tax incidence concerns how the burden of a tax is shared between buyer & seller – in other words who pays more of the tax.  In this example, buyers (consumers) pay $10 of the $15 tax and sellers (producers) pay $5 of the tax.  Buyers pay more because demand is relatively more inelastic compared with supply. | 1 mark  1 mark  1 mark |

|  |  |  |  |
| --- | --- | --- | --- |
| **Price $** | **Quantity demanded** | **Quantity supplied** | **Quantity supplied after $15 tax** |
| 45 | 100 | 1600 | 1000 |
| 40 | 200 | 1400 | 800 |
| 35 | 300 | 1200 | 600 |
| 30 | 400 | 1000 | 400 |
| 25 | 500 | 800 | 200 |
| 20 | 600 | 600 | 0 |
| 15 | 700 | 400 | 0 |
| 10 | 800 | 200 | 0 |
| 5 | 900 | 0 | 0 |

**Question 27 (12 marks)**

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| a. A price floor is a minimum price set above the equilibrium price.  The purpose of the price floor in the alcohol market is to reduce the qty of alcohol consumed in order to reduce the social costs of alcohol consumption. | 1 mark  1 mark |
| b. 2 marks for diagram; 1 mark for explanation  Correctly labelled diagram – see below  Qty demanded contracts; Qty supplied increases | 1-2 marks  1 mark |
| c. **Two** external costs  1. Alcohol related health problems  2. Alcohol related crime | 1 mark  1 mark |
| d. Sellers of alcohol will benefit because their revenue will increase – D (alcohol) is price inelastic. Producer surplus will increase.  Society will benefit since effects of crime will fall & health costs for the govt will fall.  Consumers of cheap alcohol will lose since they are forced to pay more – consumer surplus will decrease.  The price floor will create a DWL – however this needs to be offset by benefits of reduced alcohol consumption | 1-2 marks  1 mark  1 mark  1 mark |

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**SECTION 3 (40 marks)**

**Answer TWO questions**

**Question 28** **(20 marks)**

(a) Explain the differences between a competitive and an imperfect market. (6 marks)

(b) Define the concept of market power and use a model to explain how market power can influence market efficiency. (8 marks)

(c) Explain the role and purpose of the Australian Competition and Consumer Commission (ACCC) in preventing business practices that reduce competition. (6 marks)

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| --- | --- |
| a. Compare main characteristics of competitive & imperfect markets  1. Large no. of buyers & sellers vs small no. of buyers & sellers  2. No barriers to entry vs barriers  3. Similar products vs extensive product differentiation  Point out key differences – firms in competitive market are ‘price takers’ & have no market power whereas firms in imperfect markets are ‘price setters’ & do have market power. | 1-4 marks  1-2 marks |
| b. Define market power – ability to influence price by varying output. A monopoly for example, can increase price in a market by restricting output.  Use D/S model to show how a firm with market power (e.g. monopoly) raises prices by reducing output. Consumer surplus decreases & producer surplus increases but there is a net decrease in total surplus – a DWL. 3 marks for diagram; 3 marks for explanation | 1-2 marks  1-6 marks |
| c. Discuss the ACCC – what they do, relate to Competition & Consumer Act. Aim is to increase competition in markets in order to reduce prices, increase output & increase total surplus.  Discuss **three** different types of anti-competitive business practices that reduce competition e.g. price fixing; collusion; market sharing, mergers/takeovers, exclusive dealing, predatory pricing. | 1-3 marks  1-3 marks |

**Question 29** **(20 marks)**

(a) Explain the meaning of price elasticity of **supply** and, using a diagram(s), distinguish between elastic and inelastic supply. (6 marks)

(b) Discuss **three** factors that would cause the **demand** for a good to be relatively price elastic.

(6 marks)

(c)Explain how economists use the concept of elasticity to distinguish between normal and inferior goods **and** between substitutes and complements. (8 marks)

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| a. Meaning of price elasticity of **supply**: need more than just a definition, include example, formula, elastic vs inelastic  Diagram(s) – clearly showing price elastic vs price inelastic supply –  2 marks for correct diagram; 1 mark for explanation  Need to provide examples to distinguish | 1-3 marks  1-3 marks |
| b. Any **three** factors affecting price elasticity of demand – 2 marks each  i. Availability of substitutes  ii. Time  iii. Proportion of budget  iv. Broad definition vs narrow definition  v. Necessity vs luxury  Need to use examples in explanations | 1-2 marks  1-2 marks  1-2 marks  1-2 marks  1-2 marks |
| c. i. Discussion of **income elasticity** of demand for normal/inferior goods – definition of income elasticity; use of formula; normal goods coefficient is positive; inferior goods coefficient is negative; provide examples  ii. Discussion of **cross elasticity** of demand for substitute/complement goods – definition of cross elasticity; use of formula; substitute goods coefficient is positive; complement goods coefficient is negative; provide examples | 1-4 marks  1-4 marks |

**Question 30** **(20 marks)**

(a) Define the concepts of ‘rivalry’ and ‘excludability’. Use these concepts to distinguish between private goods, public goods, club goods and common property goods. Provide an example of each of these types of good. (10 marks)

(b) Explain why the market fails for two of these types of goods and discuss two policy options that the government could use to resolve these examples of market failure. (10 marks)

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| --- | --- |
| a. Define rivalry – rival vs nonrival in consumption  Define excludability – excludable vs non-excludable  Four types of goods (need example of each) – 2 marks each  1. Private goods – rival & excludable e.g. any store bought goods  2. Public goods – nonrival & non-excludable e.g. national defence, national park  3. Club goods – nonrival & excludable e.g. cable TV, gym membership  4. Common property goods (resources) – rival & non-excludable e.g. fish in ocean, endangered wildlife | 1 mark  1 mark  1-2 marks  1-2 marks  1-2 marks  1-2 marks |
| b. State that public goods & common resources suffer from market failure  Discussion of public goods & problem of ‘free riders’ – people who can’t be forced to pay because public goods are non-excludable. Market fails to supply these goods because firms cannot collect a price.  Policy option is that govts usually provide public goods and cover costs through tax revenue.  Discussion of common resources & problem of the ‘tragedy of the commons’ – these resources are ‘overexploited’ because they are rival & at the same time are free (non-excludable). World fish stocks are being depleted because the market cannot prevent consumption – there is no price to regulate use.  Policy option is that govts regulate access to these resources by issuing quotas or licences. | 1-2 marks  1-2 marks  1-2 marks  1-2 marks  1-2 marks |

**Question 31** **(20 marks)**

(a) Explain the concepts of equity (both horizontal and vertical) and market efficiency. (8 marks)

(b) To offset rising avocado prices and to encourage healthy eating, the government considers two policy options:

i. a price ceiling on avocados

ii. a subsidy paid to avocado growers.

Using separate diagrams, explain how each of these policies would operate to reduce the price of avocadoes. Discuss the effect of these policy options on both equity and market efficiency.

(12 marks)

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| --- | --- |
| a. Define equity & use examples to distinguish between horizontal & vertical equity  Equity – fairness in the distribution of income & wealth; enabling everyone to achieve a minimum standard of living; dividing up the economic pie equally  Horizontal – treating people the same, equality of opportunity  Vertical – is concerned with redistributing income, tax the rich at a higher rate to support the economically weak  Market efficiency – concerns producing what consumers want at the lowest cost. It occurs when the MB = MC. Market efficiency means maximising net benefits (total surplus) for society.  Increased efficiency increases economic growth which raises incomes – but may lead to a more unequal distribution. | 1-4 marks  1-4 marks |
| b. 6 marks for each policy (3 for diagram; 3 for explanation)  i. Price ceiling – correct diagram showing max. price set below equilibrium; effect on P & Q, show shortage  Explanation – will decrease market efficiency because it reduces qty; there is a DWL. Equity for those who get the limited qty is higher, but many miss out (shortage) so overall equity will fall.  ii. Subsidy – correct diagram showing increase in supply: P falls & Q rises  Explanation – will increase equity by increasing consumption & reducing price. But a subsidy decreases market efficiency since it creates a DWL. However, could argue that health benefits from consuming more avocadoes will offset the DWL of the subsidy so market efficiency may increase. | 1-3 marks  1-3 marks  1-3 marks  1-3 marks |