

**Economics Unit 1 Exam Semester 1 2022**

**Marking Guide**

**Section 1 (24 marks)**

|  |  |
| --- | --- |
| **Question** | **Answer** |
| 1 | D |
| 2 | D |
| 3 | C |
| 4 | C |
| 5 | B |
| 6 | B |
| 7 | B |
| 8 | C |
| 9 | A |
| 10 | A |
| 11 | C |
| 12 | B |
| 13 | C |
| 14 | B |
| 15 | A |
| 16 | D |
| 17 | A |
| 18 | A |
| 19 | C |
| 20 | C |
| 21 | A |
| 22 | B |
| 23 | A |
| 24 | A |

**Section Two: Data interpretation/Short answer 36% (36 Marks)**

**Question 25**  (12 marks)

1. Identify **one demand** and **one supply** reason for the petrol price fluctuations, according to the article. (2 marks)

|  |  |
| --- | --- |
| **Description** | **Mark** |
| One demand reason |  |
| Any one correct reason:   * Pandemic, * People’s changing behaviour due to lockdowns | 1 |
| **Subtotal** | **1** |
| One supply reason |  |
| Any one correct reason:   * International conflict * Supply chain issues * Closure of some Australian oil refineries | 1 |
| **Subtotal** | **1** |
| **Total** | **2** |

1. Use a demand/supply model to describe the effects of the ‘closure of some oil refineries’ in the petrol market. (4 marks)

|  |  |
| --- | --- |
| **Description** | **Mark** |
| Model |  |
| Correctly drawn model to show the supply curve of petrol shifting to the left | 2 |
| Some attempt to use a demand and supply model | 1 |
| **Subtotal** | **2** |
| Explanation |  |
| Description of why the supply curve would shift left and one effect of this shift | 2 |
| Outline of why the supply curve would shift and little or no explanation of the effects of the shift | 1 |
| **Subtotal** | **2** |
| **Total** | **4** |
| Answers must include:  Explanation of why the supply curve of petrol would shift to the left together with the explanation of the effects of this shift which includes:   * Equilibrium price increasing * Equilibrium quantity decreasing |  |

1. For each of the following situations, draw a demand/supply model and outline what would occur in the petrol market.
2. The price of petrol increased. (3 marks)

|  |  |
| --- | --- |
| **Description** | **Mark** |
| Model |  |
| Correctly drawn model to show that an increase in the price leading to a contraction on the demand curve and expansion on the supply curve. | 1 |
| **Subtotal** | **1** |
| Description |  |
| Description of the changes in the demand and supply curve which would lead to a surplus in the petrol market | 2 |
| Outline of what would occur if the price of petrol increased | 1 |
| **Subtotal** | **2** |
| **Total** | **3** |

1. Changing consumer behaviour due to the enforced lockdowns. (3 marks)

|  |  |
| --- | --- |
| **Description** | **Mark** |
| Model |  |
| Correctly drawn model to show that a decrease in demand of petrol | 1 |
| **Subtotal** | **1** |
| Description |  |
| Description of a decrease in the demand curve of petrol resulting in a decrease in equilibrium price and decrease in equilibrium quantity | 2 |
| Outline of what would occur in lockdowns | 1 |
| **Subtotal** | **2** |
| **Total** | **3** |

**Question 26 (12 marks)**

1. (i) Calculate the price elasticity of supply watermelons if the price increases from $6 to $9. Remember to show your working. (1 mark)

|  |  |
| --- | --- |
| **Description** | **Mark** |
| Working |  |
| Correct working is needed  (Change in quantity supplied / original quantity supplied) x (original price /price)  = (300/1500) x (6/3) |  |
| Price elasticity of supply |  |
| Correct PES: 0.4 | 1 |
| **Total** | **1** |

(ii) Circle the correct response: (1 mark)

|  |  |
| --- | --- |
| **Description** | **Mark** |
| Price elasticity of supply |  |
| Correct PES: Price inelastic | 1 |

1. Explain **two** determinants of the price elasticity of supply of watermelons. (6 marks)

|  |  |
| --- | --- |
| **Description** | **Mark** |
| Explanation of two determinants of the price elasticity of supply of watermelons |  |
| Explanation of each determinant of supply | 3 |
| Description of each determinant of supply | 2 |
| Outline of each determinant of supply | 1 |
| **Total** | **3 x 2 = 6** |
| Answers could include:  Determinants of price elasticity of supply (based watermelons having an inelastic supply):   * Time * Nature of industry |  |

1. Use a model and the concept of elasticity to demonstrate the impact of a severe flood on the watermelon market. (4 marks)

|  |  |
| --- | --- |
| **Description** | **Mark** |
| Model |  |
| Correctly drawn model to show that a decrease in supply of watermelons and supply curve is more inelastic than demand (as per calculations in (a) (i) ) | 2 |
| **Subtotal** | **2** |
| Description |  |
| Description of a decrease in the supply curve of watermelon resulting in an increase in equilibrium price and decrease in equilibrium quantity | 2 |
| Outline of what would occur if the supply for watermelons decreases | 1 |
| **Subtotal** | **2** |
| **Total** | **4** |

**Question 27 (12 marks)**

1. (i) State and define the type of price control which is mentioned in the article above.

(2 marks)

|  |  |
| --- | --- |
| **Description** | **Mark** |
| Sates correct price control |  |
| Price ceiling | 1 |
| Correct definition of price control |  |
| Price ceiling refers to a maximum price that sellers are able to charge in a market and this price occurs below equilibrium. | 1 |

(ii) Identify the year that the price control was passed. (1 mark)

|  |  |
| --- | --- |
| **Description** | **Mark** |
| Correct identification of year |  |
| 2021 | 1 |

(iii) Outline one negative consequence of the price control mentioned in the article.

(1 mark)

|  |  |
| --- | --- |
| **Description** | **Mark** |
| Outline one negative consequence |  |
| Any of the following:   * New renters may be unable to get into the rental market * New renters may be forced to pay higher rents * May lead to black markets | 1 |

1. Describe one reason why the government passed the price control in the rental market in Spain. (2 marks)

|  |  |
| --- | --- |
| **Description** | **Mark** |
| Reason for imposition of price floor |  |
| Description of a reason for the imposition of price floor |  |
| Outline of a reason for the imposition of price floor |  |
| Answers could include any of the following:   * Consumers may have lobbied the government to decrease the market price and so a maximum or ceiling price is set somewhere below the market clearing price. * Price ceilings are justified on equity grounds – to help low income consumers | 1 |

1. Use a demand and supply model to demonstrate and discuss the impact of the price control in the rental market in Spain. (6 marks)

|  |  |
| --- | --- |
| **Description** | **Mark** |
| Model |  |
| Correct model to show price ceiling above equilibrium | 2 |
| Some attempt at a demand and supply model | 1 |
| **Sub-total** | **2** |
| Discussion |  |
| Discussion of impact of price ceiling | 4 |
| Explanation of impact of price ceiling | 3 |
| Description of impact of price ceiling | 2 |
| Outline of impact of price ceiling | 1 |
| **Sub-total** | **4** |
| **Answers could include:**   * Price is decreased from equilibrium to below equilibrium * Consumer surplus has increased * Producer surplus has decreased * Deadweight loss occurs * Total surplus has decreased * Discussion should include the use of model in answer and the Spanish scenario |  |
| **Total** | **6** |

**Section Three: Extended answer 40% (40 Marks)**

**Question 28**

1. Discuss the differences between the concepts of income price elasticity of demand and cross elasticity of demand. (10 marks)

|  |  |
| --- | --- |
| **Description** | **Mark** |
| Income Elasticity of Demand |  |
| Discussion of income elasticity of demand with the use of examples | 4-5 |
| Explanation of income elasticity of demand with some use of examples | 2-3 |
| Outline of income elasticity of demand with very little or no use of examples | 1 |
| **Subtotal** | **5** |
| Cross Price Elasticity of Demand |  |
| Discussion of cross price elasticity of demand with the use of examples | 4-5 |
| Explanation of cross price elasticity of demand with some use of examples | 2-3 |
| Outline of cross price elasticity of demand with very little or no use of examples | 1 |
| **Subtotal** | **5** |
| **Total** | **10** |
| Answers for each type of elasticity should include:   * Definitions * Formula * Coefficient * Examples |  |

1. The four main types of goods in a market are private goods, public goods, common property goods and club goods. Using the concepts of ‘rivalry’ and ‘excludability’ and examples of your choice, discuss the differences between the four types of goods above.

(10 marks)

|  |  |
| --- | --- |
| **Description** | **Mark** |
| Using the concepts of ‘rivalry’ and ‘excludability’. |  |
| Correct definitions of each term | **1 x 2** |
| **Subtotal** | **2** |
| Answers could include:  A good is said to be rival in consumption if one person’s consumption decreases the consumption of others.  The exclusion principle means that those consumers who are willing & able to purchase a product gain exclusive rights of ownership & the benefits that can be derived by that ownership. |  |
| Discussion of each of the four types of goods with an example for each |  |
| Discussion of each type of good using an example | **2** |
| Description of each type of good with little or no use of example | **1** |
| **Subtotal** | **2 x 4** |
| Answers could include:  Private good – rivalrous and excludable  Club good – non-rivalrous and excludable  Common property good – rivalrous and non-excludable  Public good – non-rivalrous and non-excludable |  |
| **Total** | **10** |

**Question 29**

1. Explain **three** barriers to entry in a market and demonstrate using an appropriate model how market power can influence market efficiency. (12 marks)

|  |  |
| --- | --- |
| **Description** | **Mark** |
| Model of how market power can influence market efficiency | | |
| Accurate model to show how market power can influence market efficiency | **3** |
| Some attempt at model to show market power | **2** |
| Limited attempt at model to show market power | **1** |
| **Subtotal** | **3** |
| Explanation of each of the **three** barriers to entry (x3) | | |
| Explanation of each barrier to entry | **3** |
| Description of each barrier to entry | **2** |
| Outline of each barrier to entry | **1** |
| **Subtotal** | **9** |
| **Total** | **12** |
| Answers could include:  Barriers to entry:   * Economies to scale * Control of supply * Government regulation * Anti-competitive behavior * Brand loyalty * Protection of intellectual property |  |

1. Discuss **two** policy options the government could use to influence market power.

(8 marks)

|  |  |
| --- | --- |
| **Description** | **Mark** |
| Discussion of each of the **two** policy options (x2) | | |
| Discussion of each barrier to entry | **4** |
| Explanation of each barrier to entry | **3** |
| Description of each barrier to entry | **2** |
| Outline of each barrier to entry | **1** |
| **Subtotal** | **4** |
| **Total** | **8** |
| Answers could include:   * Legislation for example Competition and Consumer Act 2010 – the Act is administered by the Australian Competition and Consumer Commission (ACCC) * Regulation/deregulation |  |

**Question 30**

1. Use a demand/supply model to demonstrate and describe how negative production externalities and negative consumption externalities can influence market efficiency.

(8 marks)

|  |  |
| --- | --- |
| **Description** | **Mark** |
| Model of how negative externalities can influence market efficiency (x2) | | |
| Accurate model to show how market power can influence market efficiency | **2** |
| Some attempt at model to show market power | **1** |
| **Subtotal** | **4** |
| Answers must include:   * A diagram for negative production externality * A diagram for negative consumption externality |  |
| Explanation of each of the **two** negative externalities (x2) | | |
| Description of a type of negative externality | 2 |
| Outline of a type of negative externality | 1 |
| **Subtotal** | **4** |
| Answers must include:   * Definition * Example * Diagram * Description of externality using diagram and example |  |

1. Discuss how the government can use market policies to correct the two types of negative externalities listed in (a). (12 marks)

|  |  |
| --- | --- |
| **Description** | **Mark** |
| Discussion of how governments can use market policies to correct each of the **two** types of negative externalities. (x2) |  |
| Discussion of each type of negative externality. | 5-6 |
| Explanation of each type of negative externality | 3-4 |
| Outlines what the government could do to correct each type of negative externality | 1-2 |
| **Subtotal** | **6** |
| Answers must include:   * Example of government policy * Diagram showing correction of externality   Discussions using diagram and example |  |