

**ECONOMICS**

**2019 Unit 1**

**Semester 1 Examination**

**2 hours & 30 minutes, plus 10 minutes reading time**

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Student Number: In figures |  |  |  |  |  |  |  |  |  |  |

In words

**Time allowed for this paper**

Reading time before commencing work: ten minutes (10 minutes)

Working time for paper: two and half hours (2 ½ hours)

**Materials required/recommended for this paper**

*To be provided by the supervisor*

This Question/Answer Booklet

Extended Answer Booklet

Multiple-choice Answer Sheet

***To be provided by the candidate***

Standard items: pens, pencils, eraser, correction fluid/tape, ruler, highlighters

Special items: non-programmable calculators satisfying the conditions set by the Schools Curriculum and Standards Authority for this course.

**Important note to candidates**

No other items may be taken into the examination room. It is your responsibility to ensure that you do not have any unauthorised notes or other items of a non-personal nature in the examination room. If you have any unauthorised material with you, hand it to the supervisor before reading any further.

**Structure of this paper**

**Instructions to candidates**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Section | Number of questions available | Number of questions to be answered | Suggested working time (minutes) | Marks available |
| Section One: Multiple-choice | 24 | 24 | 35 | 24 |
| Section Two: Data interpretation/ Short response | 3 | 3 | 75 | 36 |
| Section Three: Extended response | 2 | 1 | 40 | 20 |
|  |  |  |  | **Total 80** |

1. Answer the questions according to the following instructions.

**Section Two**: Write answers in this Question/Answer Booklet. Spare pages are included at the end of this booklet. They can be used as additional space if required to continue an answer. If you need to use the space to continue an answer, indicate in the original answer space where the answer is continued, i.e. give the page number. Fill in the number of the question(s) that you are continuing to answer at the top of the page.

**Section One**: Answer all questions on the separate Multiple-choice Answer Sheet provided. For each question shade the box to indicate your answer. Use only a blue or black pen to shade the boxes. If you make a mistake, place a cross through that square, do not erase or use correction fluid, and shade your new answer. Marks will not be deducted for incorrect answers. No marks will be given if more than one answer is completed for any question.

2. You must be careful to confine your responses to the specific questions asked and to follow any instructions that are specific to a particular question.

* Planning: If you use the pages for planning, indicate this clearly at the top of the page.
* Answering the question: In the pages provided indicate clearly the question number you are answering.

**Section Three**: Write answers in the separate Extended Answer Booklet. Pages are included at the end of this booklet for planning and writing your answer.

**Section One: Multiple-choice (24 Marks)**

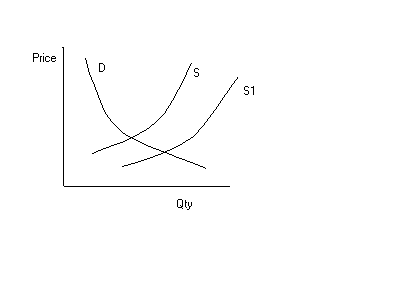
This section has **24** questions. Answer **all** questions on the separate Multiple-choice Answer Sheet provided. For each question shade the box to indicate your answer. Use only a blue or black pen to shade the boxes. If you make a mistake, place a cross through that square, do not erase or use correction fluid, and shade your new answer. Marks will not be deducted for incorrect answers. No marks will be given if more than one answer is completed for any question.

1. An item is said to be scarce in economics if
   1. it can only be found in a few places
   2. it is very rare
   3. it not wanted by anybody
   4. it commands a price
2. In goods markets \_\_\_\_\_\_\_\_ and in factor markets \_\_\_\_\_\_\_\_.
   1. Households sell to firms; firms sell to households
   2. Firms sell to households; households sell to firms
   3. Households sell to firms; households sell to firms
   4. Firms sell to households; firms sell to households
3. Which of the following is an example of a concept, which is part of microeconomics?
   1. The unemployment rate
   2. The rate of change of GDP
   3. The price of labour
   4. The value of money
4. The opportunity cost of improving health facilities in Thailand could be
   1. the libraries that could have been built
   2. the infections that are eliminated
   3. the salaries of the doctors and nurses employed
   4. too low if there is an outbreak of cholera
5. Which of the following would an economist classify as capital?
   1. Buying shares in Telstra
   2. Putting money in an investment account in the Commonwealth Bank
   3. Dividends paid to shareholders
   4. Machinery in a factory
6. Which of the following will cause an extension in demand for a product X?
   1. A fall in the price of X if the price and quantity of X are inversely related.
   2. A fall in the price of Y if X and Y are substitutes
   3. An increase in consumer preferences for X
   4. An increase in income if X is a normal good.

7) The demand for a product is negatively related to its price, ceteris paribus. What does *ceteris paribus* mean in this context?

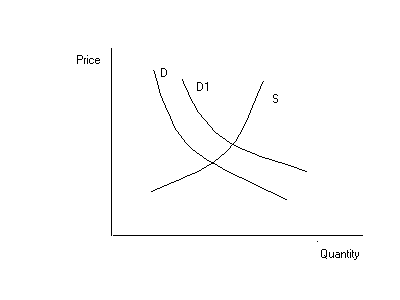
* 1. Factors affecting demand other than price are held constant.
  2. Factors affecting price other than demand are held constant.
  3. Price changes result from changes in demand
  4. Price falls result in increased quantity demanded.

Question 8 refers to the following diagram, which represents the market for oranges



1. The shift from S to S1 could be explained by
   1. an increase in the price of oranges
   2. a rise in the price of bananas
   3. an increase in the number of orange trees bearing fruit
   4. a successful advertising campaign encouraging the eating of oranges

Question 9 refers to the following diagram, which represents the market for restaurant meals.



1. The shift from D to D1 could be caused by
   1. an increase in the price of restaurant meals
   2. an increase in real incomes
   3. an increase in the number of restaurants
   4. an increase in chef’s salaries

10) What would be the impact on supply for cars following an increase in the price of oil?

* 1. A contraction in supply.
  2. An expansion in supply.
  3. An increase in supply.
  4. A decrease in supply.

1. What will be the effect on consumer and producer surplus if costs of production increases?
   1. Consumer and producer surplus will fall
   2. Consumer and producer surplus will rise
   3. Consumer surplus will fall and producer surplus will rise
   4. Consumer surplus will rise and producer surplus will fall

The table shows the price Andrea is willing to pay for successive bottles of water.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| bottles of water | 1st | 2nd | 3rd | 4th |
| price willing to pay | $3.60 | $3.20 | $2.60 | $2.00 |

1. If the price is $2 and Andrea buys four bottles, what is the monetary value of Andrea’s consumer surplus?
   1. $0.60
   2. $3.40
   3. $3.60
   4. $8.00
2. If total revenue received by a seller increases as a result of a price reduction then the price elasticity of demand must be
   1. elastic
   2. unity
   3. inelastic
   4. indeterminate
3. Which of the following pair best represents substitute goods?
   1. Motor cars and ice cream.
   2. Flour and bread.
   3. Motorcycles and petrol.
   4. Margarine and butter.
4. A normal good has positive income elasticity. This means that as income rises
   1. demand will increase
   2. demand will decrease
   3. supply will increase
   4. supply will decrease
5. A good for which the demand is unitary elastic, has a price elasticity coefficient
   1. less than one.
   2. equal to one.
   3. greater than one.
   4. less than zero.
6. Which of the following is a correct definition for income elasticity?
   1. The effect on the quantity of a good sold as a result of a change in its price.
   2. The effect on the quantity of a good demanded as a result of a change in its costs.
   3. The effect on the quantity of a good demanded as a result of a change in income.
   4. The effect on the quantity of a good demanded as a result of a change in the price of a substitute good
7. A 5% decrease in the price of one brand of soft drink (Brand A) causes a 10% decrease in the demand for another brand of soft drink (Brand B). The cross elasticity of demand for Brand B with respect to the price of Brand A is
   1. +2
   2. +0.5
   3. -2
   4. -0.5
8. What is marginal social cost?
   1. Marginal external cost minus marginal private cost
   2. Marginal private benefit plus marginal external cost
   3. Marginal private cost plus marginal external cost
   4. Marginal social benefit minus marginal private costs
9. Which of the following explains why the market system fails to produce public goods?
   1. Consumers can benefit from public goods without having to pay for them.
   2. Consumers prefer to buy private goods rather than public goods.
   3. Low income earners are disadvantaged because they cannot afford public goods.
   4. Government business enterprises produce public goods cheaper than private industry.
10. A firm with market power is most likely to use their market power to
    1. improve the allocation of resources.
    2. charge higher prices than firms with little market power.
    3. charge customers for its negative externalities in production.
    4. increase the elasticity of its supply curve.
11. Residents in a country town experience a significant slow-down in the speed of their internet service as a result of a large increase in usage from newly-connected households. The slower internet speed is most likely a result of
    1. rivalry in consumption.
    2. free riding.
    3. non-excludability in usage.
    4. the internet being a public good.
12. People walking past a bakery often comment on the pleasure of smelling freshly baked bread. This is an example of a
    1. negative consumption externality
    2. negative production externality
    3. positive consumption externality
    4. positive production externality
13. Which of the following policies would a government be least likely to use to regulate private monopoly?
    1. Subsidies
    2. Price controls
    3. Output restrictions
    4. Anti-trust laws

**End of Section 1**

**Please Turn Over for Section 2**

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

This section has three (3) questions. You must answer all the questions. Write your answers in the spaces provided. Spare pages are included at the end of this booklet. They can be used for planning your responses and/or as additional space if required to continue an answer. Please clearly indicate where you are continuing your answer, if necessary.

**Suggested working time for this section is 75 minutes.**

**Question 25 (12 marks)**

***Needle crisis hits strawberry plantings***

*Far fewer strawberries are to be planted in Perth this year after growers took a $12 million hit on income last season because of the needle sabotage crisis. During the crisis, many consumers were anxious about purchasing strawberries for fear of swallowing a needle and strawberry sales plummeted. At the start of the season, growers enjoyed $6 per 500g punnets, but during the crisis, the price of punnets fell to $2.5 per 500g. The WA Strawberry Growers Association said that this year a lot of growers will be reducing their plantings. Strawberries are an expensive crop to put into the ground and many growers will not have the funds to plant their normal sized crops.*

*[Source: The West Australian January 2019]*

a) Calculate the producers’ revenue before and after the crisis, based on sales of 4 million punnets. (2 marks)

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b) Using a diagram, explain the impact on price and quantity of strawberries following of the “needle scandal” on the market for strawberries. (4 marks)

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c) Excluding the following statement “*a lot of growers will be reducing their plantings”,* discuss what factors will affect the supply of strawberries next season. (6 marks)

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**Please turn over the page for the next question.**

**Question 26 (12 marks)**

*A recent announcement by the McGowan Government recognises the housing shortage in WA and is considering various solutions to help low income families.*

*Keystart is a government owned agency who provides home loans to low income West Australians who do not meet the standard income requirements for a home loan from the banks. The income limits for Keystart are: less than $90,000 for singles and $115,000 for a couple. The State Government has confirmed next week’s budget will see an increase in income limits for applicants. This increase in income limits will allow more low income earners access to home loans. Keystart’s existing income limits will increase by $15,000 for singles and couples from July 1, 2019.*

*There are three additional solutions for discussion: The Government could subsidise the rent paid by tenants who are in danger of being evicted by their private landlords; the Government could impose a cap on rents; and a longer term solution would be to build more public housing.*

a) Define and explain what is the opportunity cost of building more public housing? (2 mark)

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b) Explain the impact on efficiency and equity of placing a cap (price ceiling) on the rental market? Use a diagram as part of your answer. (6 marks)

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c) Explain **two** (2) possible policy options to promote equity. (4 marks)

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**Question 27 (12 marks)**

This question refers to the quote below:

Concern has grown in recent years over the issue of global climate change. In terms of economic analysis, greenhouse gas emissions, which cause planetary climate changes, represent both an environmental externality and the overuse of a common property resource.

The atmosphere is a global commons into which individuals and firms can release pollution. Global pollution creates a ‘public bad’ borne by all — a negative externality with a wide impact.

a) Briefly explain why the atmosphere is considered a common property resource. (2 marks)

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b) Explain why negative externalities often result from the use of common property resources. (2 marks)

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c) Using a model, explain how the negative production externality affects market efficiency. (4 marks)

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d) Briefly describe **two** (2) policy options that a government could use to correct negative externalities in the marketplace. (4 marks)

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**End of Section 2**

**Section Three: Extended Answer (20 Marks)**

This section contains two (2) questions. **You must answer one (1) question**. Write your answer on the lined pages provided in the Extended Answer Booklet.

Spare pages are included at the end of this booklet. They can be used for planning your responses and/or as additional space if required to continue an answer. Please clearly indicate this at the top of each section / page.

Fill in the number of the question(s) that you are continuing to answer at the top of the page.

**Suggested working time for this section is 40 minutes.**

**Question 28 (20 marks)**

a) Outline the causes of market failure in the economy. (6 marks)

b) Using examples, distinguish between a private and a public good. (6 marks)

c) Discuss **two** (2) policies that governments could use to decrease the market failure associated with public goods. (8 marks)

**OR**

**Question 29 (20 marks)**

Government can use taxes and subsidies to influence consumption of merit and demerit goods in the marketplace. Using example(s) and diagram(s) to aid your answer.

a) Discuss the effects of a tax on a demerit good. (10 marks)

b) Discuss the effects of a subsidy on a merit good. (10 marks)

**End of Section 3 and Examination**

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