

# 1

90986



NEW ZEALAND QUALIFICATIONS AUTHORITY  
MANA TOHU MĀTAURANGA O AOTEAROA

SUPERVISOR'S USE ONLY

## Level 1 Economics, 2011

### 90986 Demonstrate understanding of how consumer, producer and/or government choices affect society, using market equilibrium

9.30 am Friday 25 November 2011

Credits: Five

Achievement	Achievement with Merit	Achievement with Excellence
Demonstrate understanding of how consumer, producer and/or government choices affect society, using market equilibrium.	Demonstrate in-depth understanding of how consumer, producer and/or government choices affect society, using market equilibrium.	Demonstrate comprehensive understanding of how consumer, producer and/or government choices affect society, using market equilibrium.

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 space for any answer, use the page(s) provided at the back of this booklet and clearly number the question.

Check that this booklet has pages 2–11 in the correct order and that none of these pages is blank.

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

**TOTAL**

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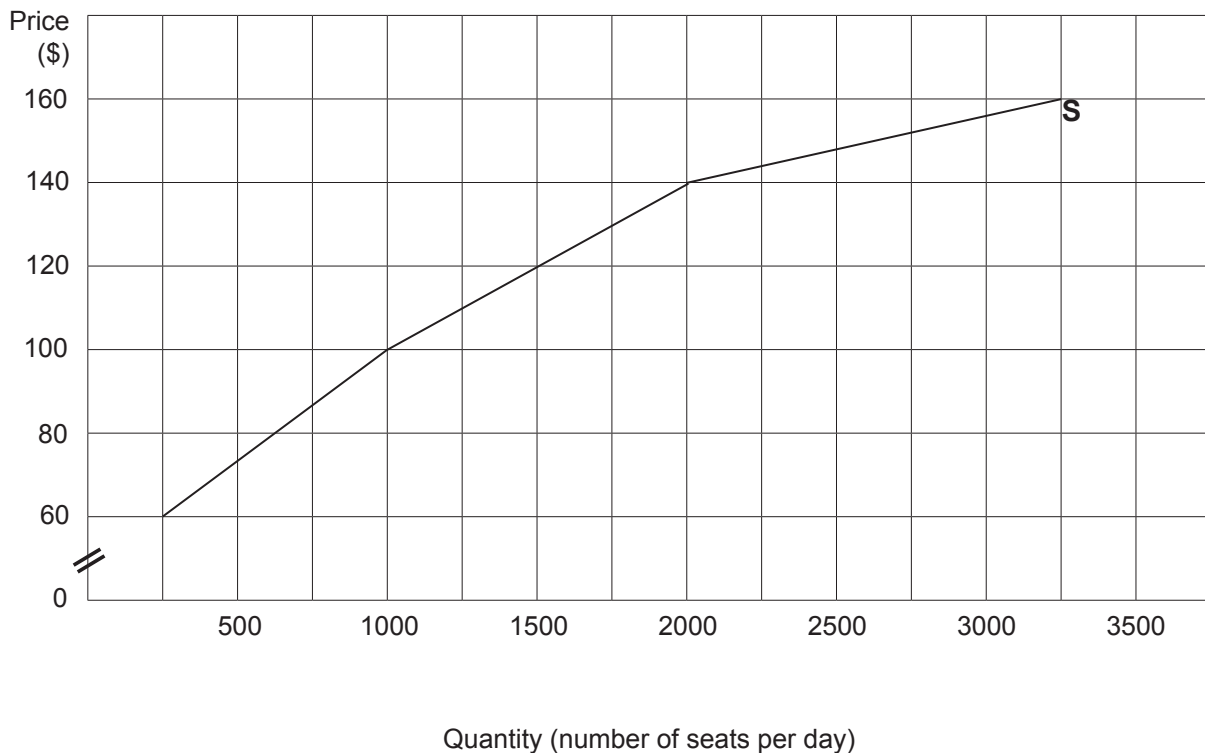
You are advised to spend 60 minutes answering the questions in this booklet.

### QUESTION ONE: MARKET EQUILIBRIUM

The table and graph illustrate the market for airline flights between Auckland and Wellington.

Market for one-way flights between Auckland and Wellington (number of seats per day)	
Price (\$)	Market demand
160	500
140	1500
120	2000
100	2500
60	3500

The market for one-way flights between Auckland and Wellington



Complete questions (a) to (c) to **fully explain** market equilibrium in the context of airline flights between Auckland and Wellington.

- (a) Use the graph and the schedule above to:
- complete the market graph by drawing in and labelling the market demand curve
  - indicate the **market equilibrium price ( $P_e$ )** and **quantity ( $Q_e$ )**.

**One-way flights between Auckland and Wellington only \$100!**

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- (b) On the graph you drew on page 2, show the market situation if the price of a one-way flight between Auckland and Wellington was \$100.

**You must:**

- use **dotted lines** to show the quantity demanded (label this  $Q_d$ )
- use **dotted lines** to show the quantity supplied (label this  $Q_s$ )
- **fully label** the resulting **surplus or shortage**.

- (c) **Discuss** how the free market would react to this situation.

In your answer, you should:

- fully explain the change in market price
- fully explain the change in quantity demanded and quantity supplied
- refer to the data given.

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**QUESTION TWO: CHANGE IN SUPPLY**

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Recently Air New Zealand began twice-weekly services between Sydney and Rotorua. Pacific Blue introduced two new flights per week between Cairns and Auckland. Jetstar plans to introduce a seventh Airbus A320 on the trans-Tasman route and increase the number of flights between Australia and New Zealand.

Source: [www.tourismnewzealand.com](http://www.tourismnewzealand.com)

Complete questions (a) and (b) to **fully explain** the effect of a change in supply on market equilibrium and consumers.

(a) **Discuss** how the information above affects market **supply**.

In your answer, you should:

- explain how market supply is determined
- fully explain the effect these announcements have on market supply
- show, on the graph below, the effect on the market supply curve (fully label the change).

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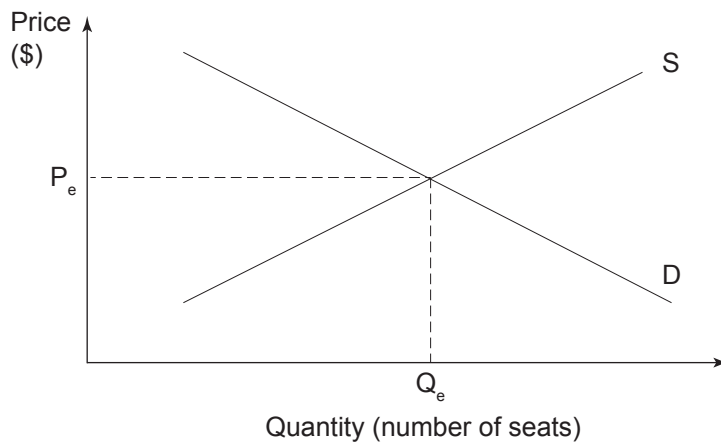
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**Weekly market for trans-Tasman airline flights**



(b) **Discuss** the effect of this change on the market for trans-Tasman air flights.

In your answer, you should:

- label the new equilibrium quantity and equilibrium price on the graph on page 4
- fully explain the effect on trans-Tasman **airline consumers**.

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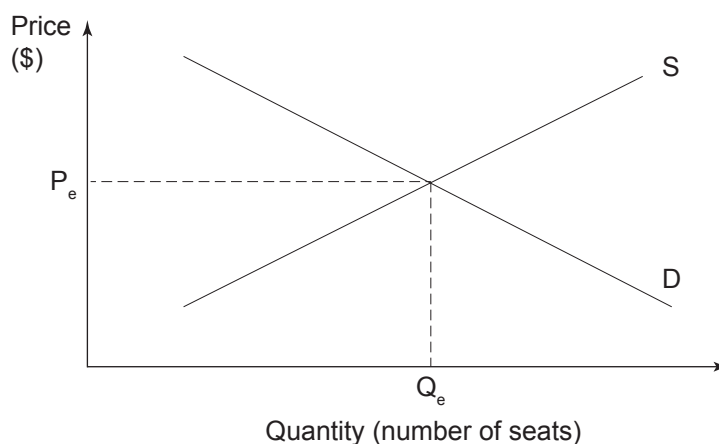
### QUESTION THREE: CHANGE IN DEMAND

In 2011 New Zealand hosted the Rugby World Cup.

Complete question (a) and (b) to **fully explain** the effect of the Rugby World Cup on the airline industry.

- (a) On the graph below, show how the Rugby World Cup would have affected the market **demand** for trans-Tasman and domestic airlines flights from August to October 2011 (fully label the change).

#### Weekly market for New Zealand airline flights



- (b) **Discuss** the effect of the Rugby World Cup on the New Zealand airline industry.

In your answer, you should:

- fully explain the effect on the market **demand**
- label the new equilibrium quantity and the new equilibrium price on the graph above
- fully explain the effect of the change on **airline profits**
- refer to your graph above.

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## QUESTION FOUR: SALES TAX

The rapid growth of air travel in recent years contributes to an increase in total pollution attributable to aviation. Suppose this prompts the Government to place a further \$50 tax per passenger flying to Australia.

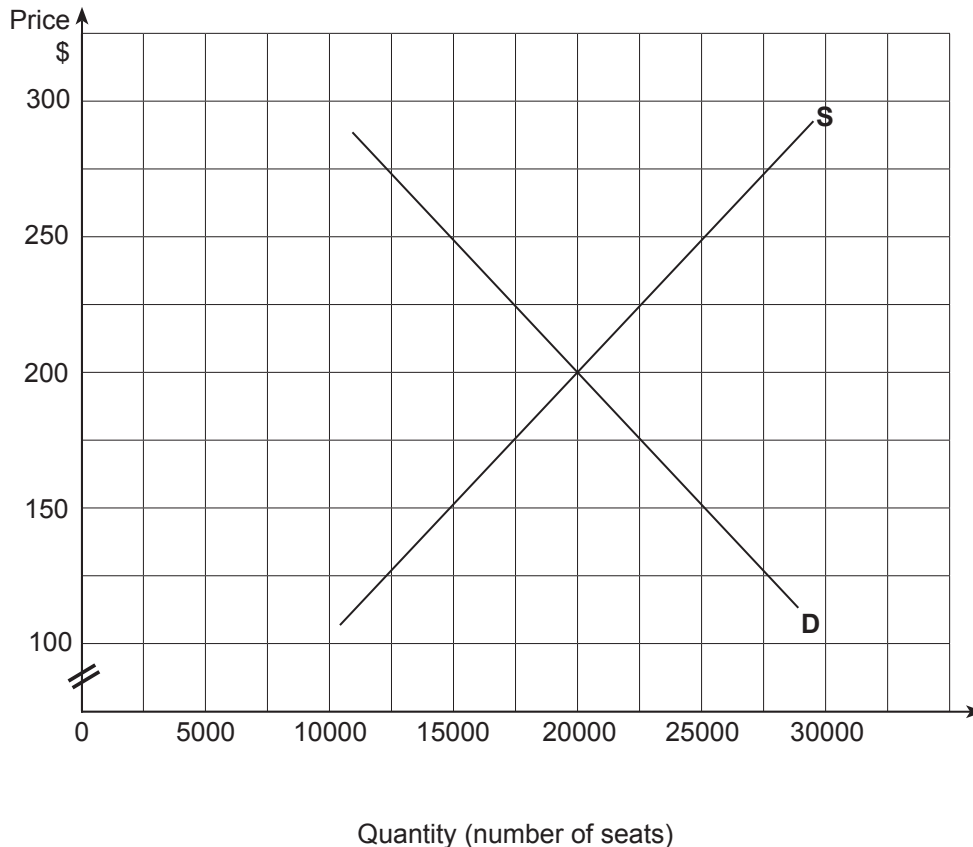
Complete questions (a) to (c) to **fully explain** the effect of a sales tax on different sectors of the economy.

- (a) On the graph below, show the effect of a \$50 tax per passenger on a trans-Tasman flight.

**You must:**

- (i) use dotted lines to show the original equilibrium price and quantity (label as  $P_e$  and  $Q_e$ )
- (ii) shift an appropriate curve
  - use dotted lines to show the new equilibrium price (label as  $P_e^1$ )
  - use dotted lines to show the new equilibrium quantity (label as  $Q_e^1$ ).

**Market for daily trans-Tasman airline flights**





(b) Referring to the graph on page 8, identify the:

- Number of seats consumers buy before and after tax

Before: \_\_\_\_\_

After: \_\_\_\_\_

- Price per flight consumers pay before and after tax

Before: \_\_\_\_\_

After: \_\_\_\_\_

- Price per flight producers receive before and after tax

Before: \_\_\_\_\_

After: \_\_\_\_\_

And then:

- Calculate the total tax revenue the government will earn from this tax. (Show working).

\$ \_\_\_\_\_

**Working space**

**Question Four continues  
on the following page**





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