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NEW ZEALAND QUALIFICATIONS AUTHORITY
MANA TOHU MĀTAURANGA O AOTEAROA

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SUPERVISOR'S USE ONLY

Level 1 Economics, 2012

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

9.30 am Tuesday 27 November 2012

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

ASSESSOR'S USE ONLY

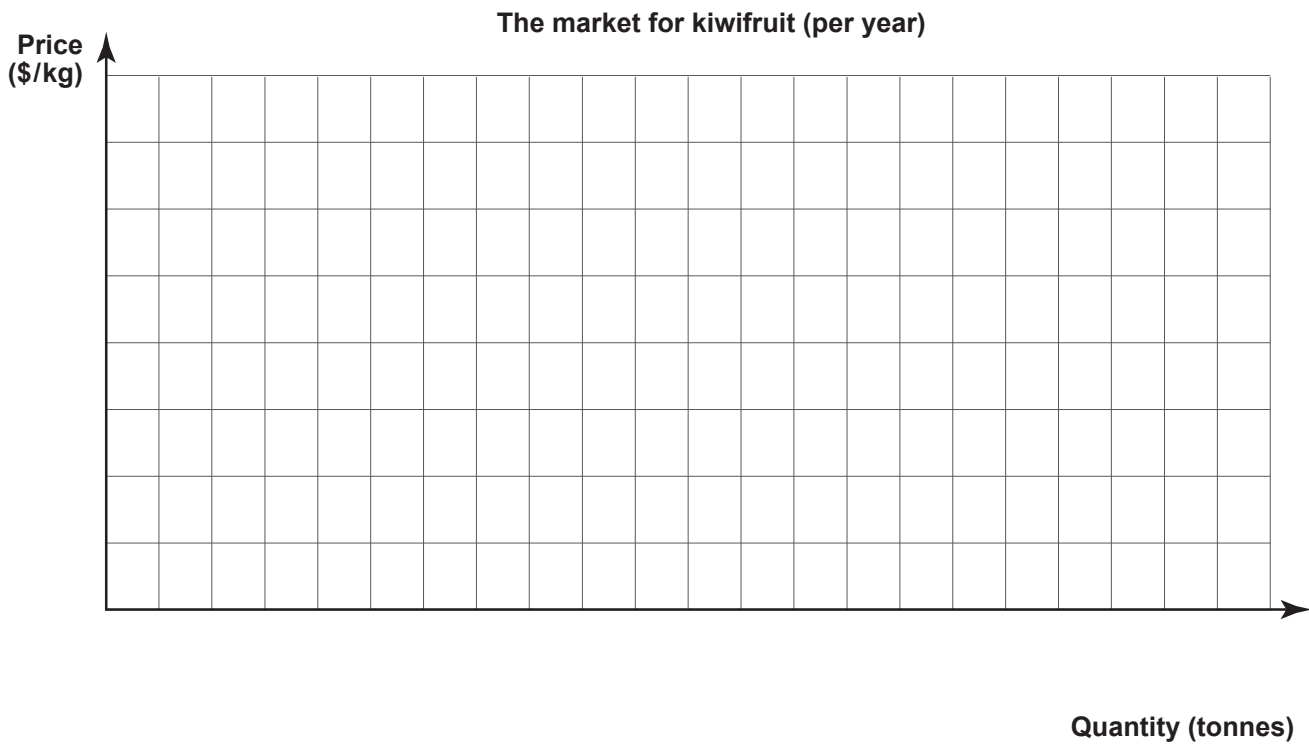
You are advised to spend 60 minutes answering the questions in this booklet.

QUESTION ONE: MARKET EQUILIBRIUM

The demand and supply of kiwifruit are summarised below.

At \$3.00 a kilogram, the market demand was 10 000 tonnes a year. At \$4.00 consumers would buy 8 000 tonnes, at \$5.00 the market demand would be 4 500 tonnes. If the price increased a further 20%, New Zealand consumers on the whole indicated that they would be willing and able to buy 2 000 tonnes a year, while supply was 10 000 tonnes.

Market for kiwifruit (per year)		
Price (\$ per kg)	Market supply (tonnes)	Market demand (tonnes)
3.00	7 000	
4.00	8 000	8 000
5.00	9 000	4 500
	10 000	

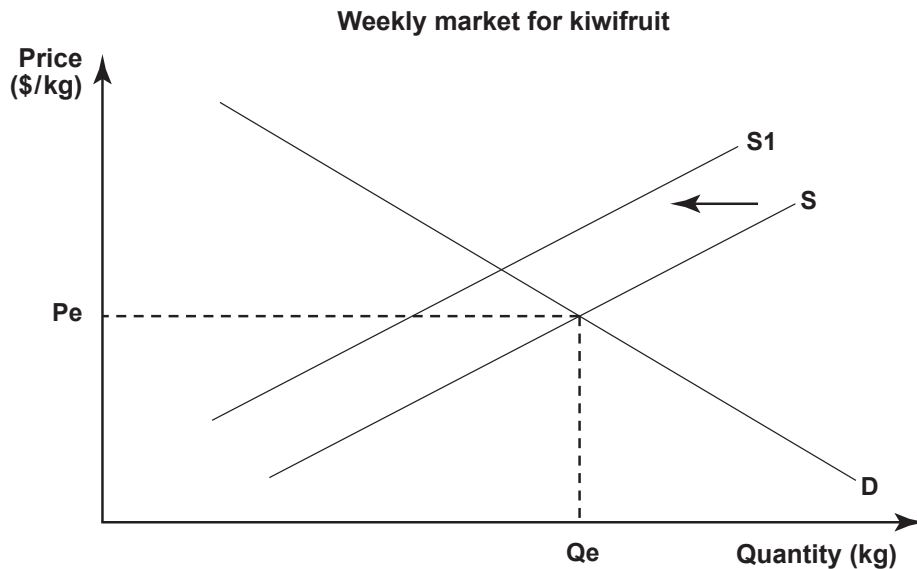


Complete questions (a) to (c) to **fully explain** market equilibrium in the context of kiwifruit.

- (a) Use the information in the resource box above to:
- complete the market schedule
 - complete the market graph
 - use dotted lines to indicate the **market equilibrium price (Pe)** and **quantity (Qe)**.

QUESTION TWO: CHANGES IN DEMAND AND SUPPLY

The graph below shows the weekly market for kiwifruit. The supply curve has been shifted to show a decrease in supply.



New Study: New Zealand kiwifruit help reduce cold symptoms

A study published in the British Journal of Nutrition has reinforced the health and nutritional benefits of New Zealand's kiwifruit, confirming that regular intake of the fruit can help reduce the symptoms of a cold.

Adapted from: <http://business.newzealand.com/emea/en/news-and-events/news/new-study-nz-gold-kiwifruit-help-reduce-cold-symptoms/>

Complete questions (a) and (b) to **fully explain** the combined effect of the changes in demand and supply on kiwifruit growers.

- (a) Show the **combined effect** of the changes in demand and supply on the market for kiwifruit on the graph above.

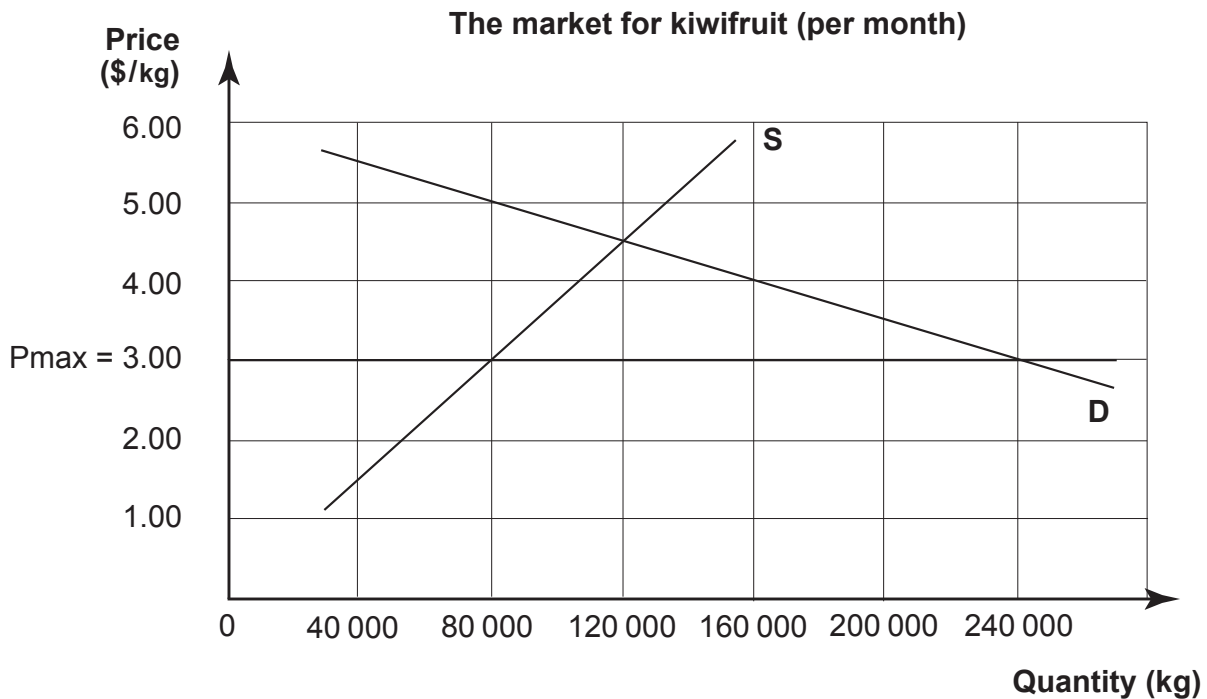
You must:

- show a change in demand that may result from the article above
- use dotted lines to show the resulting new price and/or new quantity
- fully label the changes.

QUESTION THREE: MAXIMUM PRICE

The proven health benefits and rising prices of kiwifruit may prompt the government to consider implementing a maximum price control.

The graph below shows the effects of a maximum price of \$3.00 per kilogram on the market for kiwifruit.



Complete questions (a) and (b) to **fully explain** the effect of introducing a maximum price on kiwifruit consumers.

- (a) On the market for kiwifruit graph above, show the changes to quantity demanded and quantity supplied as a result of the maximum price.

You must:

- use dotted lines to show the equilibrium price and quantity before the maximum price. Label as **Pe** and **Qe**
- use dotted lines to show the new quantity demanded by consumers after the maximum price. Label **Qd**
- use dotted lines to show the new quantity supplied by kiwifruit growers after the maximum price. Label **Qs**
- fully label the resulting surplus or shortage.

QUESTION FOUR: SUBSIDIES

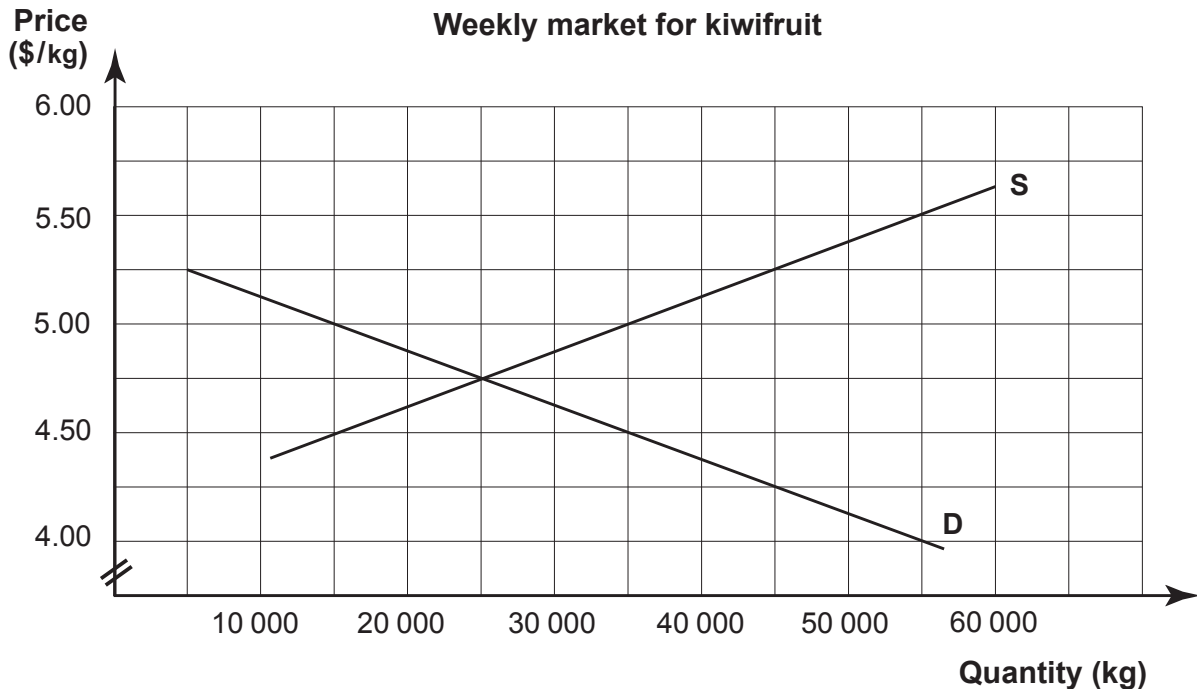
Further studies showing the extensive health benefits of kiwifruit may prompt the Government to consider providing a subsidy to the industry.

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

- (a) On the graph below, show the effect of a \$0.50 subsidy per kilogram on the market for kiwifruit.

You must:

- use dotted lines to show the original equilibrium price and equilibrium quantity. Label as **P_e** and **Q_e**
- use dotted lines to show the new equilibrium price. Label as **P1**
- use dotted lines to show the new equilibrium quantity. Label as **Q1**.



- (b) Referring to the graph above, identify and calculate the:

- (i) Quantity **consumers buy** before and after subsidy

Before: _____ kg After: _____ kg

- (ii) Price per kilogram **consumers pay** before and after subsidy

Before: \$ _____ per kg After: \$ _____ per kg

- (iii) Price per kilogram **kiwifruit growers receive** before and after subsidy

Before: \$ _____ per kg After: \$ _____ per kg

- (iv) Total cost per week to the Government of this subsidy. (Show working).

\$ _____

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