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Level 1 Economics, 2013

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

9.30 am Tuesday 26 November 2013
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 2–12 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 one hour answering the questions in this booklet.

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QUESTION ONE: MARKET EQUILIBRIUM

The following table shows the demand and supply of football boots in New Zealand.

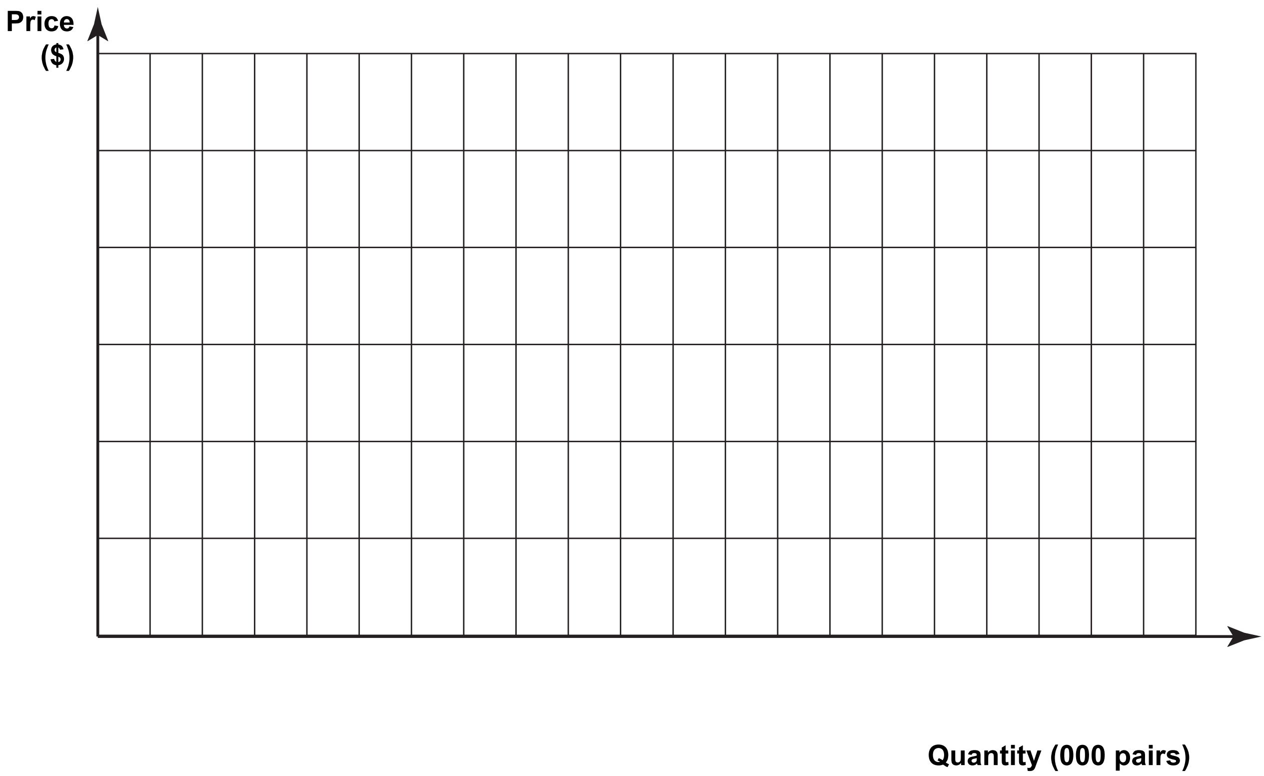
New Zealand market for football boots (per month)		
Price ($ per pair)	**Market supply (pairs)**	**Market demand (pairs)**
50	2 000	19 000
100	9 000	15 000
150	11 000	11 000
200	12 000	7 000
250	13 000	3 000

Complete (a) – (c) to **fully explain** market equilibrium in the context of football boots.

(a) Use the information in the table above to:

- complete the market graph below
- indicate the **market equilibrium price** ($\mathbf{P_e}$) and **equilibrium quantity** ($\mathbf{Q_e}$).

Title: ______________________________



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(b) On the graph you drew on page 2, show the market situation if the price of football boots was \$100 per pair.

You must:

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

(c) **Fully explain** how the free market would react to this situation.

In your answer, you should:

- refer to the graph and data on page 2
- explain the change in market price
- explain the change in quantity demanded and quantity supplied.

QUESTION TWO: MARKET CHANGES

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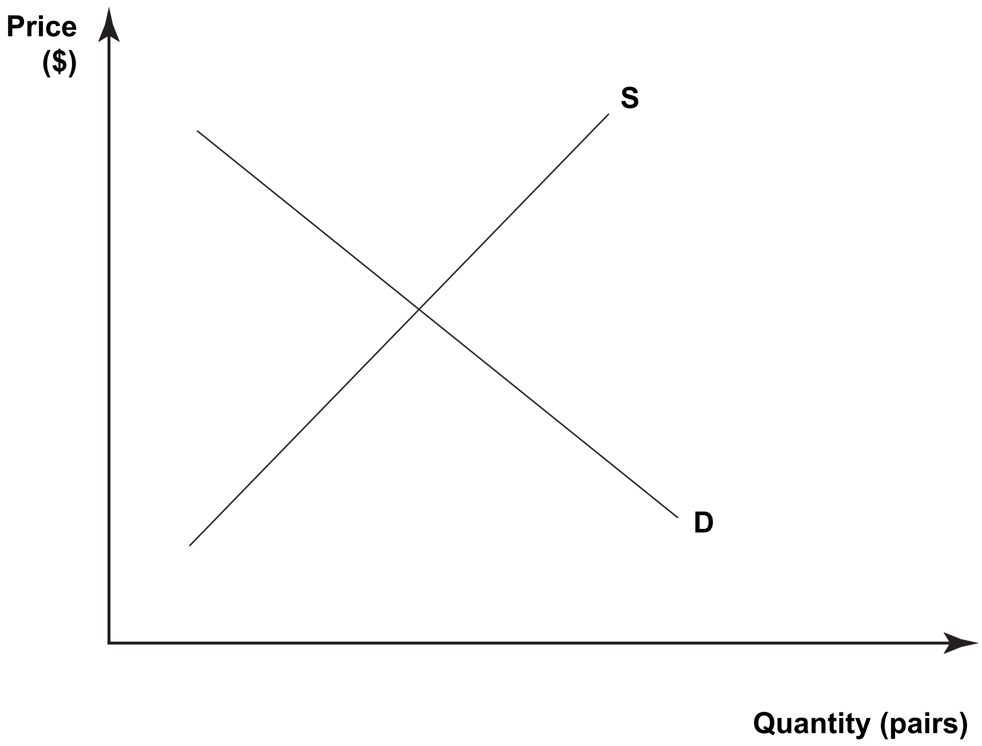
Due to fewer import regulations, more imported football boots – as well as other footwear – have entered the New Zealand market.

Fully explain the effect of more imported football boots entering the New Zealand market.

You must:

- label the original equilibrium price (**P_e**) and equilibrium quantity (**Q_e**) on the graph below
- shift the supply or demand curve accordingly
- label the new price (**P_1**) and quantity (**Q_1**)
- refer to the graph
- explain the change in price
- explain the effect of the change in price on quantity demanded
- explain the benefit this change in the market will have for consumers.

New Zealand market for football boots



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QUESTION THREE: NON-PRICE MARKETING

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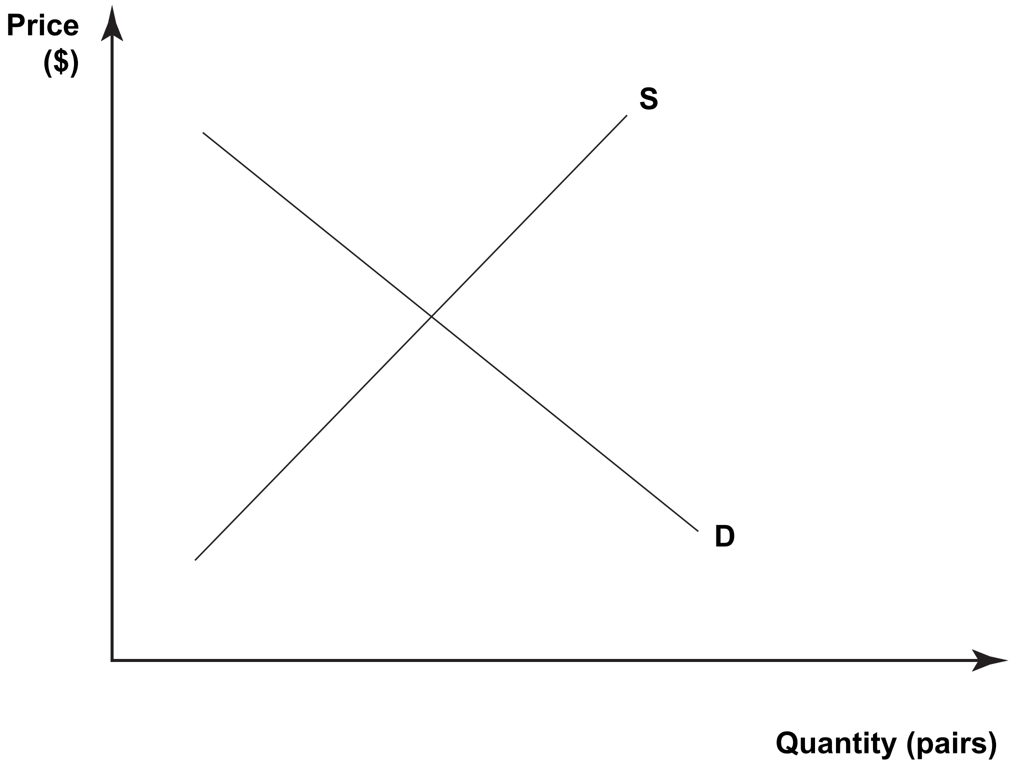
Many firms prefer to use non-price methods to clear a surplus of football boots.

Fully explain how firms may use non-price methods to eliminate the surplus of football boots.

You must:

- label the equilibrium price (**P_e**) and equilibrium quantity (**Q_e**) on the graph below
- show a price (**P_1**) which results in a surplus
- label the surplus
- explain ONE non-price method firms can use to increase the market demand for football boots, and how this will eliminate the surplus
- shift the demand curve to eliminate the surplus
- explain how this strategy will affect the revenue and profit of football boot sellers.

New Zealand market for football boots



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QUESTION FOUR: SALES TAX

In order to get more people playing sport, it has been suggested a tax be placed on computer games.

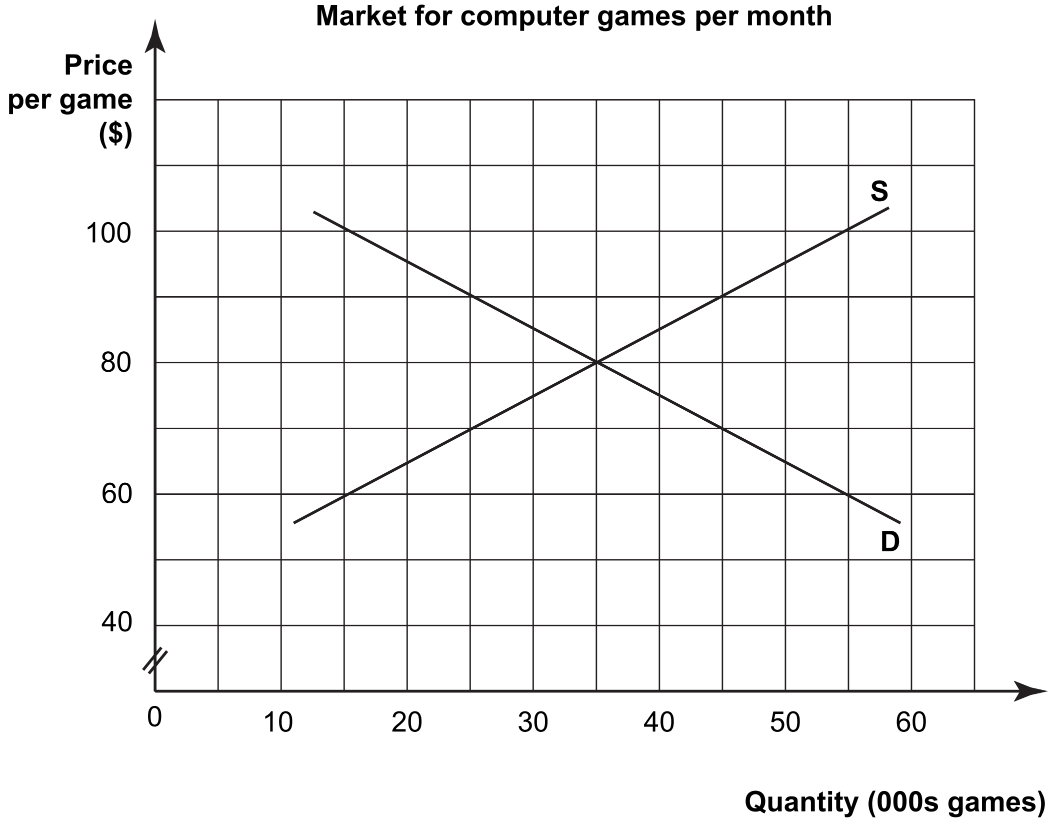
Complete (a) – (c) to **fully explain** the effect of a tax on different sectors of the economy.

(a) On the graph below, show the effect of a $20 tax per game.

You must use dotted lines to show:

- the original equilibrium price and equilibrium quantity (label as $\mathbf{P_e}$ and $\mathbf{Q_e}$)
- the new equilibrium price (label as $\mathbf{P_1}$)
- the new equilibrium quantity (label as $\mathbf{Q_1}$).

Market for computer games per month



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

(i) Quantity **consumers buy** before and after tax

Before: ____________ games After: _______________ games

(ii) Price **consumers pay** before and after tax

Before: $____________ per game After: $_______________ per game

(iii) Price **sellers receive** before and after tax

Before: $____________ per game After: $_______________ per game

(iv) Total revenue per month to the government of this tax. (Show working).

$ _______________________

Working space

Question Four continues on page 10 ►

(c) **Fully explain** how a tax on computer games might affect different sectors of the economy.

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In your answer:

- refer to the graph on page 8
- explain the change in price to consumers and the effect on consumer spending on computer games
- explain the change in price to sellers and the effect on the sellers' revenue
- explain the effect on the government in the immediate or short-run period
- explain ONE possible longer-term benefit to society.

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Extra space if required.
Write the question number(s) if applicable.

QUESTION NUMBER

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