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NEW ZEALAND QUALIFICATIONS AUTHORITY
MANA TOHU MĀTAURANGA O AOTEAROA

3

SUPERVISOR'S USE ONLY

Level 3 Economics, 2013

91399 Demonstrate understanding of the efficiency of market equilibrium

9.30 am Monday 18 November 2013
Credits: Four

Achievement	Achievement with Merit	Achievement with Excellence
Demonstrate understanding of the efficiency of market equilibrium.	Demonstrate in-depth understanding of the efficiency of market equilibrium.	Demonstrate comprehensive understanding of the efficiency of 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 2–8 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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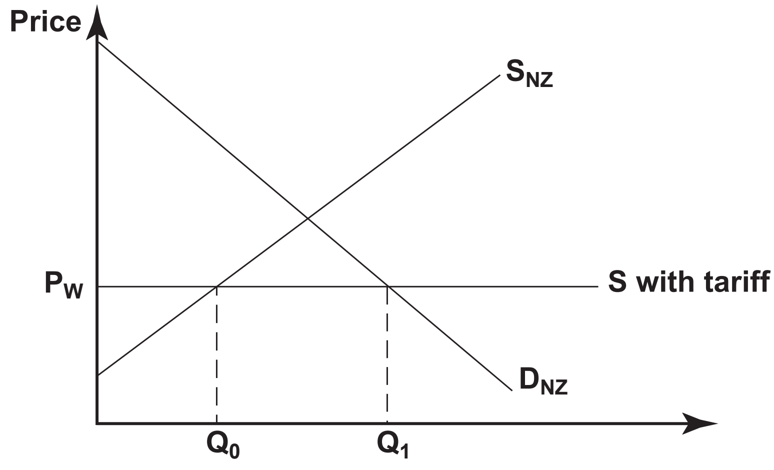
QUESTION ONE

As part of the New Zealand – China Free Trade Agreement, tariff removals will continue in 2013. New Zealand will remove tariffs on a range of Chinese products imported into New Zealand. A good example of this is in the removal of the tariff on shoes.

Complete (a) and (b), to discuss the impact of the tariff removal on efficiency in the New Zealand shoe market:

Graph One – The New Zealand shoe market



(a) (i) On Graph One above, show the impact of the tariff removal on the New Zealand shoe market. Identify the new price (P_{new}), new quantity demanded (Q_2), new quantity supplied by New Zealand producers (Q_3), and new quantity imported (M_{new}).

(ii) Explain in detail any changes you made to Graph One.

(b) Compare and contrast the impact of the tariff removal on consumers, producers, the government, and allocative efficiency.

In your answer:

- on Graph One, use labelling, and shade in areas to show the impact of the tariff removal on allocative efficiency in the New Zealand shoe market
- explain the changes in consumer surplus, producer surplus, and government tariff revenue
- refer to changes you made on Graph One
- explain the impact on overall allocative efficiency.

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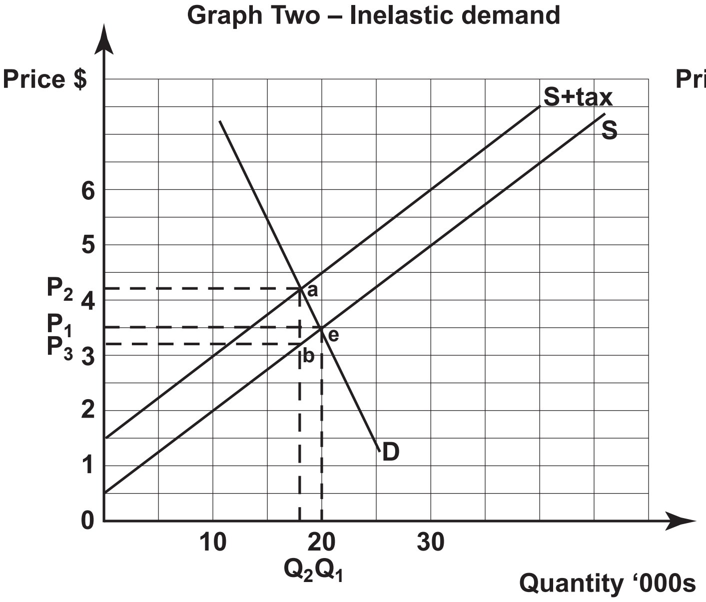
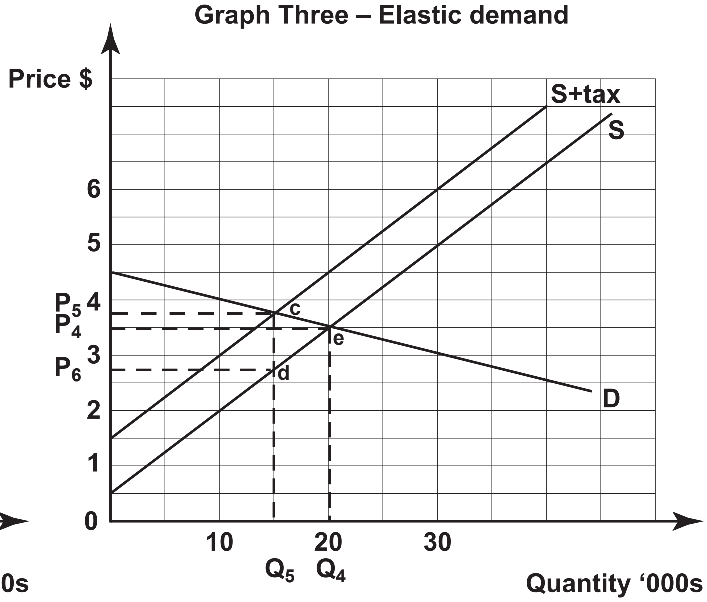
QUESTION TWO

Graphs Two and Three show two similarly-priced products with differing price elasticities of demand.

Graph Two – Inelastic demand



Graph Three – Elastic demand



Complete (a) and (b) to discuss the impact of $1 tax on the efficiency in the market for goods which are price elastic, and for goods which are price inelastic.

(a) In Table One below, use the labels from **Graph Two** to identify:

Table One

	Labels from Graph Two
The new equilibrium price and quantity	
The change in consumer surplus	
The change in producer surplus	
The tax revenue for government	
The deadweight loss	

(b) Compare and contrast the impact of the $1 tax on the efficiency in the market for each good. In your answer:

- explain in detail, using market forces, the change in market equilibrium for **either** good
- explain in detail, for **each** good, the changes to consumer surplus, producer surplus, and allocative efficiency
- compare and contrast the impact of the $1 tax on consumers, producers, the government, and efficiency, when the goods have different price elasticities
- refer to both graphs.

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QUESTION THREE

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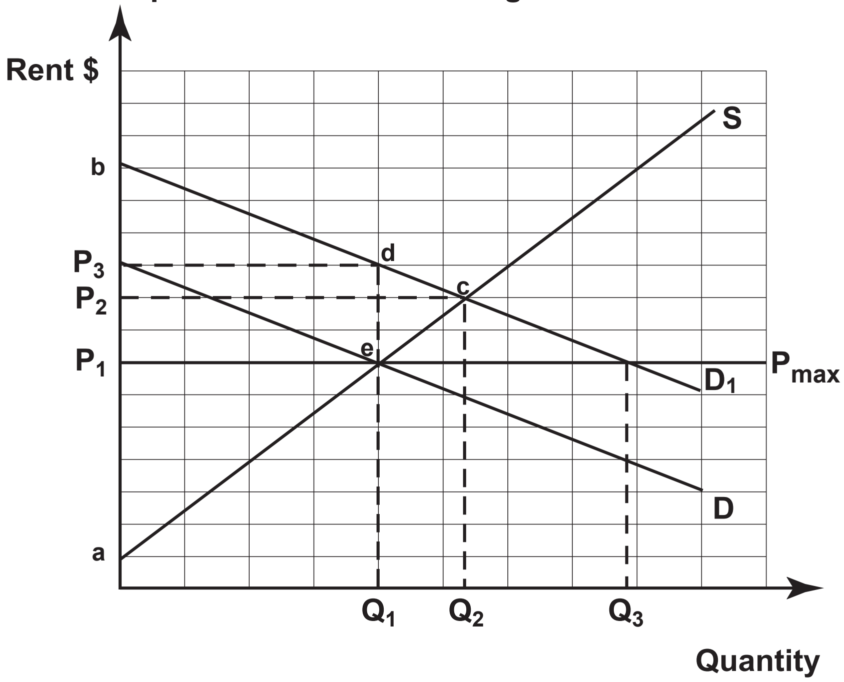
Rising rents are likely to become as much of a political issue as unaffordable house prices.

According to research, Auckland house rents are rising faster than both wages and inflation. The rising rents are being driven by a shortage caused by increasing demand.

The increased demand is shown in Graph Four below by the line D_1.

Graph Four – Rental housing market in Auckland



(a) Explain in detail, using market forces, how the increased demand causes rising rents. Refer to Graph Four in your answer.

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If the government has a goal of ensuring affordable rents for more people, then one option that the government has available is to control rents by imposing a maximum rent.

(b) Compare and contrast the situation of leaving the market at the new equilibrium, with the effect of setting a maximum rent at P_1 on the rental housing market in Auckland.

In your answer, refer to Graph Four, and explain the impact of imposing the maximum rent at P_1 on:

- consumer surplus
- producer surplus
- allocative efficiency
- the government's goal of affordable rents for more people.

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

QUESTION NUMBER

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