

# 3

91400



NEW ZEALAND QUALIFICATIONS AUTHORITY  
MANA TOHU MĀTAURANGA O AOTEAROA



SUPERVISOR'S USE ONLY

## Level 3 Economics, 2013

### 91400 Demonstrate understanding of the efficiency of different market structures using marginal analysis

9.30 am Monday 18 November 2013

Credits: Four

Achievement	Achievement with Merit	Achievement with Excellence
Demonstrate understanding of the efficiency of different market structures using marginal analysis.	Demonstrate in-depth understanding of the efficiency of different market structures using marginal analysis.	Demonstrate comprehensive understanding of the efficiency of different market structures using marginal analysis.

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 one hour answering the questions in this booklet.

### QUESTION ONE

In markets where there is little or no competition, the Commerce Commission may need to regulate the price and quantity of goods and services to benefit consumers.

Source: [www.comcom.govt.nz/regulated-industries](http://www.comcom.govt.nz/regulated-industries)

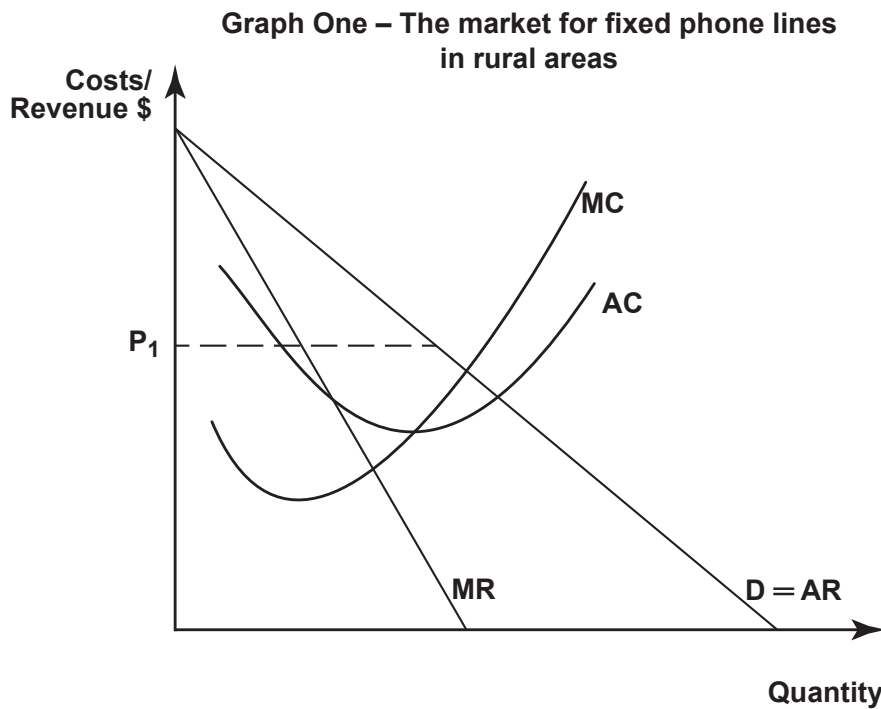
The Commerce Commission has announced a reduction in wholesale price for Chorus' local copper lines. The price reduction applies to the local copper lines between homes or businesses and an exchange.

Source (adapted): Commerce Commission Media Release, 3 December 2012

Complete (a) to (c) to demonstrate your understanding of the efficiency of monopolies.

(a) Complete Graph One to show:

- (i) the profit maximising quantity ( $Q_p$ ) and price ( $P_p$ ) that the monopolist will charge
- (ii) the equilibrium price ( $P_0$ ) and quantity ( $Q_0$ ), if the market was allocatively efficient
- (iii) use letters (a, b, c etc) to identify the area of deadweight loss of producing at  $Q_p$   $P_p$ .



The Commerce Commission could choose to regulate a monopoly by regulating the price to  $P_1$ .

(b) Shade the area on Graph One to show deadweight loss that exists when the market for fixed phone lines in rural areas is at  $P_1$ .



## QUESTION TWO

## Farm debt warning

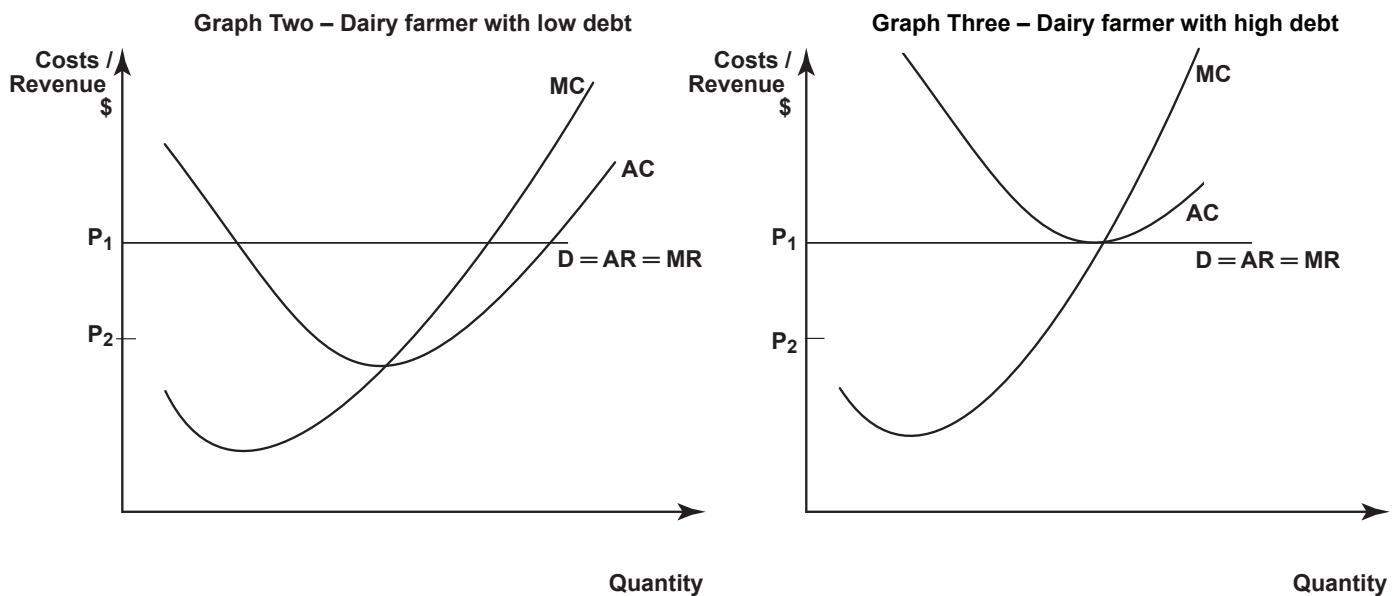
The November Financial Stability Report from the Reserve Bank painted a portrait of a heavily indebted farm sector, or as Federated Farmers president Bruce Wills terms it: "The most indebted farming industry on Earth".

Falls in commodity prices, the result, in part, of growing world production levels, have led to debt pressures.

"Dairy debt accounted for around 10 per cent of aggregate bank and non-bank lending and 63 per cent of lending to the agriculture sector. Almost half of this debt was held by the most indebted 10 per cent of farmers, leaving those farmers highly exposed when milk prices fell sharply in the wake of the global financial crisis".

Source: [www.stuff.co.nz/business/farming/8024961/Gates-close-on-farming-debt-law](http://www.stuff.co.nz/business/farming/8024961/Gates-close-on-farming-debt-law) 2 December 2012

Dairy farmers are seen as examples of perfect competitors. Use the resource material above and Graph Two and Graph Three to compare and contrast the impact of falling dairy prices on dairy farmers with differing levels of debt.



- (a) On each of Graph Two and Graph Three:
- label the profit-maximising quantity  $Q_1$  when the price is  $P_1$
  - show the effect of the price falling to  $P_2$
  - label the new profit-maximising quantity  $Q_2$ .



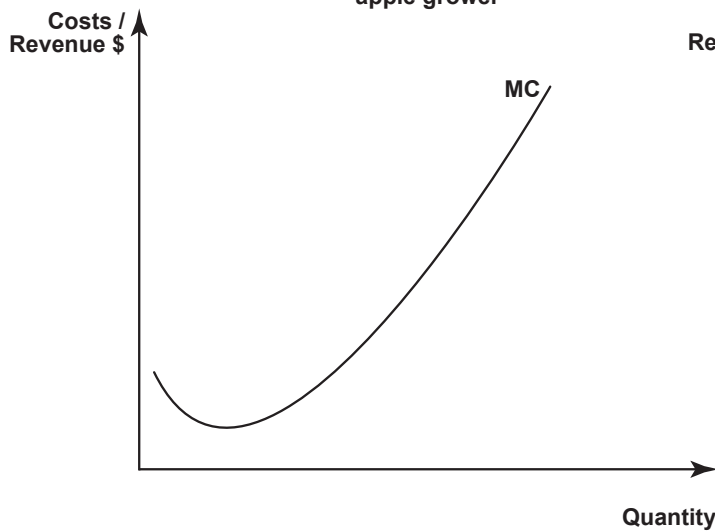


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The examination continues on the following page.**

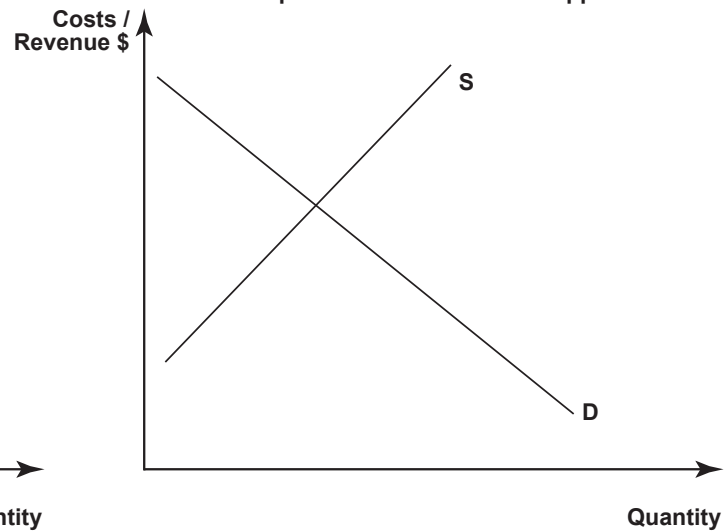
### QUESTION THREE

Complete (a) to (d) to compare and contrast the output decisions of perfect competitors and monopolists in the short run and the long run, using marginal analysis.

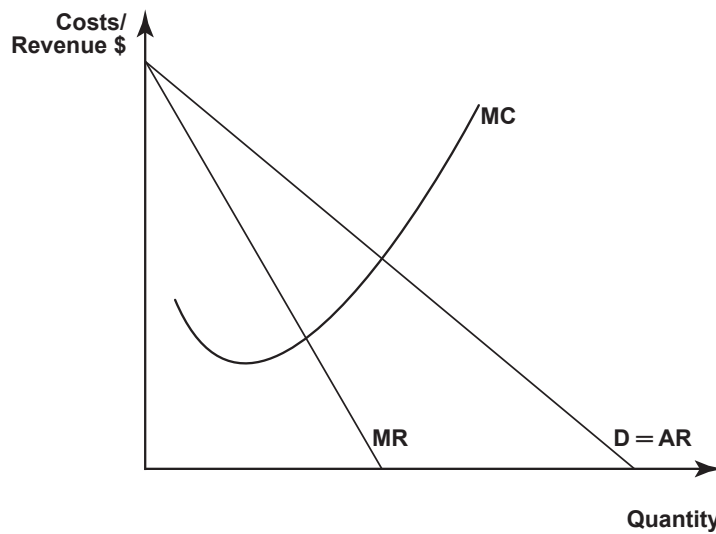
Graph Four – The perfectly competitive apple grower



Graph Five – The market for apples



Graph Six – The monopolist



- Complete Graph Four and Graph Five to show the profit maximising quantity ( $Q_1$ ) and price ( $P_1$ ) for the perfect competitor in the short run. Label the market quantity at this price as  $Q_m$ .
- Complete Graph Six to show the profit maximising quantity ( $Q_2$ ) and price ( $P_2$ ) for the monopolist.
- On both **Graph Four** and **Graph Six**, place an appropriately drawn Average Cost curve to show both the perfect competitor and the monopolist making **supernormal** profits. Shade the area of the supernormal profit on each graph.









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