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NEW ZEALAND QUALIFICATIONS AUTHORITY
MANA TOHU MĀTAURANGA O AOTEAROA

SUPERVISOR'S USE ONLY

Level 1 Economics, 2014

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

9.30 am Monday 24 November 2014
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 parts of ALL questions in this booklet.

If you need more room for any answer, use the extra space provided at the back of this booklet.

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

QUESTION ONE: MARKET EQUILIBRIUM

The table and graph below illustrate the market for 2-litre bottles of milk in New Zealand.

Market supply of 2-litre bottles of milk in New Zealand (annually)			
Price (\$)	South Island (million)	North Island (million)	Market supply (million)
3.00	3.5	3.5	
4.00	3.8		8
5.00	4.5	5.0	9.5
6.00	4.9	5.1	10
7.00	5.5		11
8.00	6.0	6.0	12

Market for 2-litre bottles of milk in New Zealand (annually)



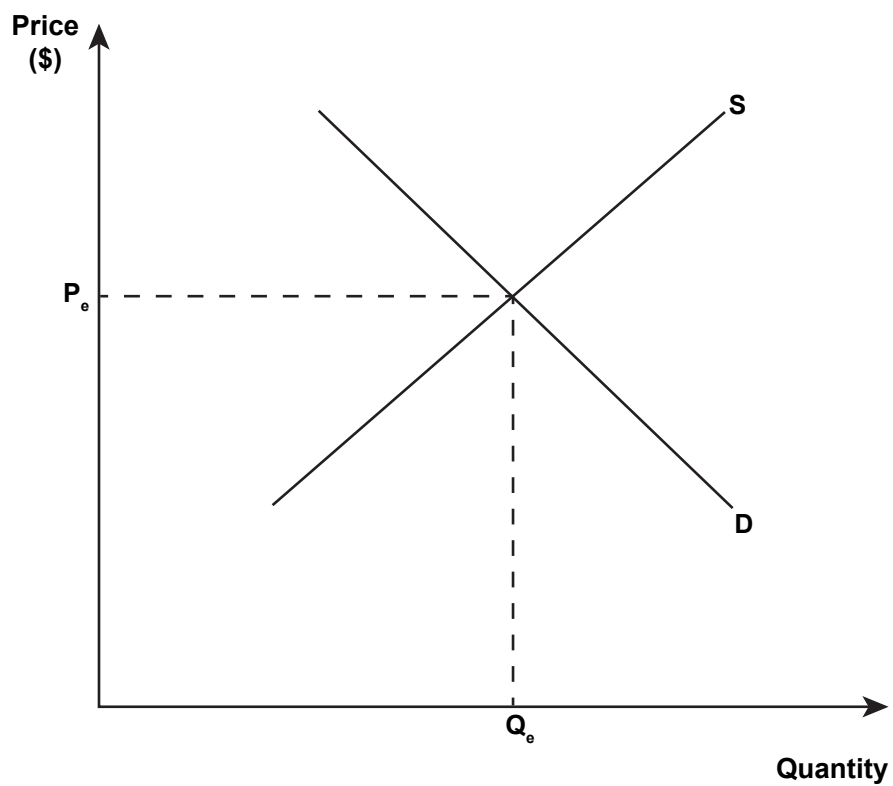
- (a) Use the schedule and graph above to:
- complete the market supply schedule
 - complete the market graph
 - use dotted lines to indicate the market equilibrium price (P_e) and quantity (Q_e).
- (b) On the graph you drew above, show the market situation if the price of one 2-litre bottle of milk was \$7. 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 **shortage** or **surplus**.

QUESTION TWO: CHANGE IN DEMAND

Recently, there was some concern over potential contamination in a milk processing plant, and parents were warned to avoid some infant milk formula.

Source: www.nbr.co.nz/article/fonterra-chief-heads-china-amid-botulism-scare-ck-143803

- (a) Show the effect of changes in demand on the market for infant milk formula. You must:
- show the effect the concern over potential contamination has on market demand
 - fully label the changes
 - use dotted lines to show the new equilibrium price and quantity.

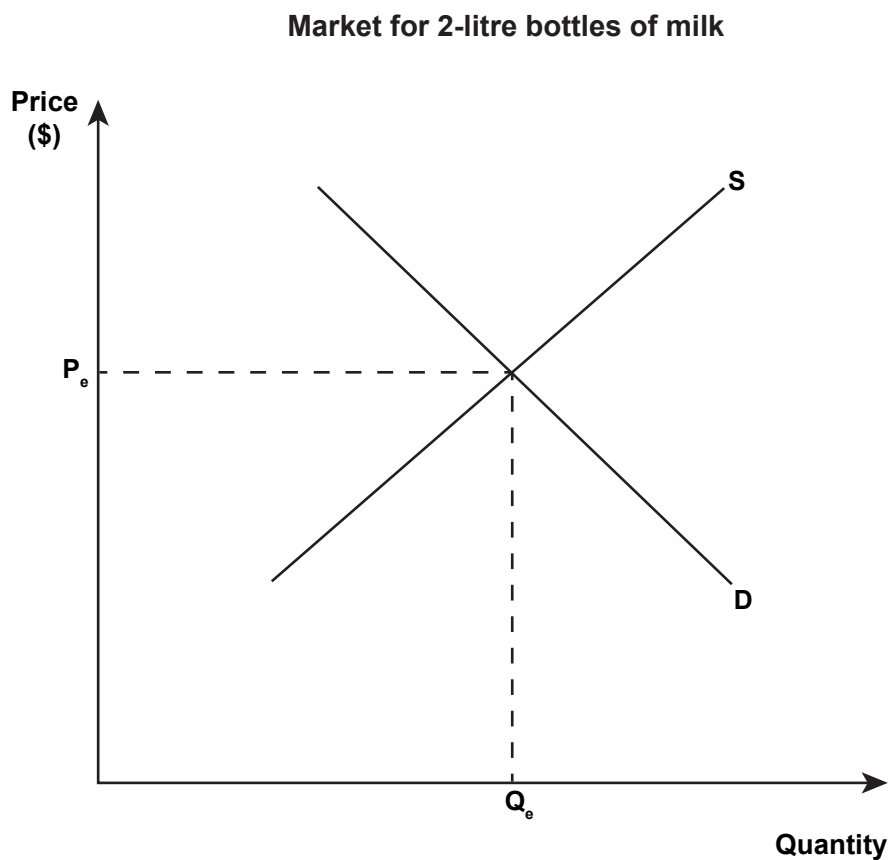
Market for infant milk formula

QUESTION THREE: CHANGE IN SUPPLY

Milk production requires a lot of water. In early 2013, New Zealand suffered its worst drought in decades. A drought zone was declared over the entire North Island and parts of the South Island.

Source: http://www.rbnz.govt.nz/research_and_publications/analytical_notes/2013/AN2013_02.pdf

- (a) Show the effect of the drought on the market for 2-litre bottles of milk. You must:
- show the effect the drought had on market supply
 - fully label the changes
 - use dotted lines to show the new equilibrium price and quantity.



QUESTION FOUR: SUBSIDIES

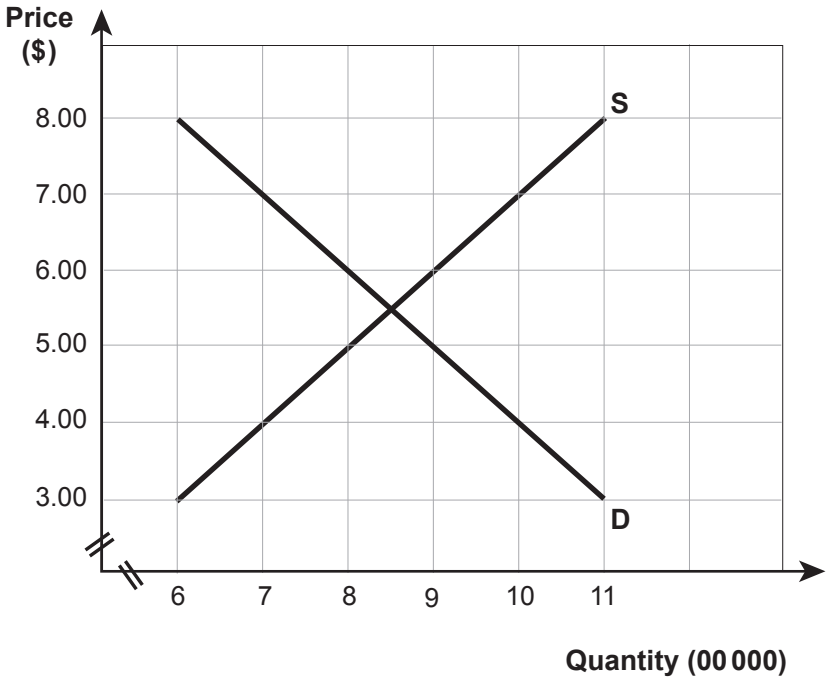
Milk has many health benefits, and this may lead the government to subsidise milk.

(a) On the graph below, show the effect of a \$1 subsidy per bottle on the market for 2-litre bottles of milk.

You must:

- use dotted lines and label the original equilibrium price (P_e) and equilibrium quantity (Q_e)
- shift the appropriate curve and re-label it
- use dotted lines to show the new equilibrium price (P_1) and quantity (Q_1).

Market for 2-litre bottles of milk (monthly)



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

	Before the subsidy	After the subsidy
Quantity consumers buy		
Price per bottle consumers pay	\$	\$
Price per bottle producers receive	\$	\$
Consumer spending	\$	\$
Producer revenue	\$	\$

Total cost to the government of this subsidy	Working:	\$
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