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91399



NEW ZEALAND QUALIFICATIONS AUTHORITY
MANA TOHU MĀTAURANGA O AOTEAROA

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Level 3 Economics, 2014

91399 Demonstrate understanding of the efficiency of market equilibrium

9.30 am Tuesday 25 November 2014

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 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 2–12 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

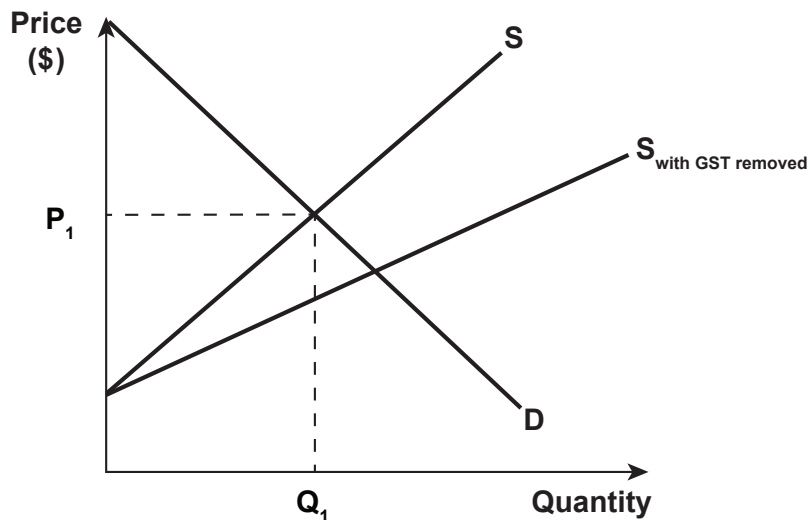
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The examination continues on the following page.**

Another policy that could be used to reduce power prices is removing GST.

- (b) Compare and contrast the impact on allocative efficiency of the two policies – a maximum price control and the removal of GST. In your answer:
- on Graph Five, clearly label the new equilibrium price (P_2) and quantity (Q_2), and shade the new producer surplus and consumer surplus
 - explain in detail the change in producer surplus, consumer surplus, and allocative efficiency
 - explain in detail why removing GST would be more allocatively efficient than introducing a maximum price control
 - refer to Graph Four and Graph Five.

Graph Five: The New Zealand electricity market with GST removed



More answer space for this question is available on the next page.

