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Level 1 Economics, 2016

90985 Demonstrate understanding of producer choices using supply

9.30 a.m. Tuesday 15 November 2016
Credits: Three

Achievement	Achievement with Merit	Achievement with Excellence
Demonstrate understanding of producer choices using supply.	Demonstrate in-depth understanding of producer choices using supply.	Demonstrate comprehensive understanding of producer choices using supply.

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 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 2–8 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.

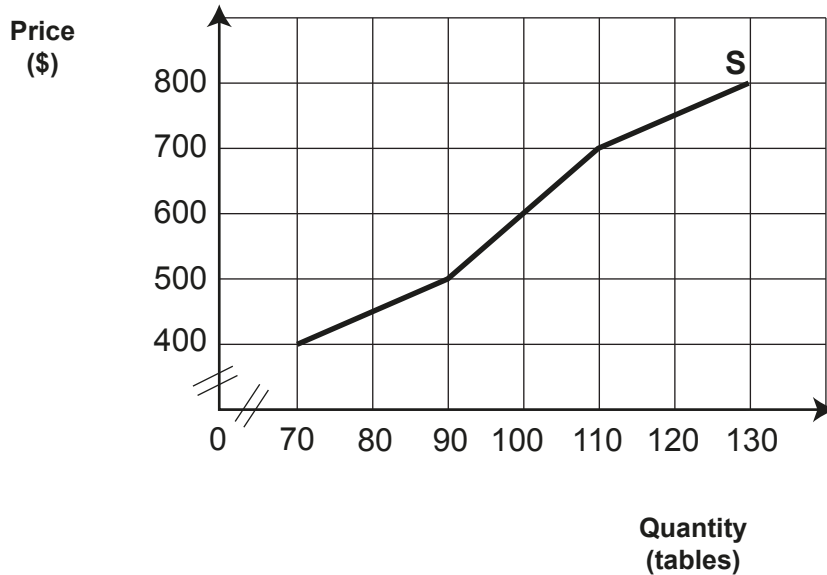
TOTAL

ASSESSOR'S USE ONLY

QUESTION ONE: LAW OF SUPPLY

Frances is the owner of *Fancy Furniture*, a large firm that produces household dining furniture.

***Fancy Furniture's* monthly supply of dining tables**



- (a) Use the graph above to complete the supply schedule below.

***Fancy Furniture's* monthly supply of dining tables**

Price (\$)	Quantity (tables)
400	
500	
600	
700	
800	

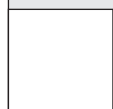
- (b) On the graph above:
- show the effect of a price decrease from \$700 to \$400 per table
 - label the changes in price and quantity.

(c) Using the graph on page 2 and the law of supply, fully explain the effect on *Fancy Furniture's* supply of dining tables when the price per table falls from \$700 to \$400.

In your answer:

- describe the law of supply
- explain the concept of ceteris paribus in the context of the law of supply
- fully explain a reason for the law of supply.

(d) Fully explain TWO flow-on effects that this change in price might have on *Fancy Furniture*.

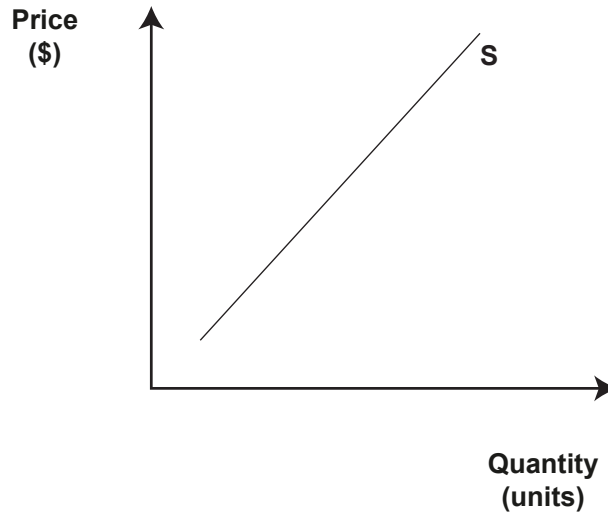


QUESTION TWO: LEGAL FACTOR

The local council has recently raised the acceptable noise level in the area where *Fancy Furniture's* workshop is located. This means that *Fancy Furniture* is now allowed to make more noise. Also, power tools can be used for more hours each day.

- (a) On the graph below, show how raising the acceptable noise level is likely to affect *Fancy Furniture's* supply of dining furniture. Fully label the changes you make on the graph.

***Fancy Furniture's* annual supply of dining furniture**



- (b) Use the graph above to fully explain how the raising of the acceptable noise level is likely to affect *Fancy Furniture's* supply of dining furniture.

In your answer, link noise levels to production, profitability, and the supply of dining furniture.

(c) Fully explain TWO flow-on effects that this change in supply might have on *Fancy Furniture*.

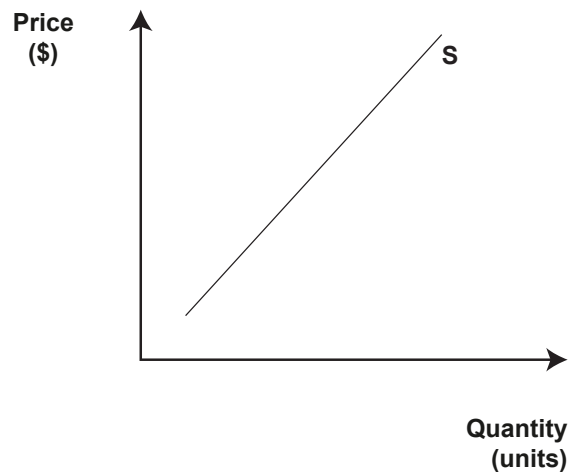
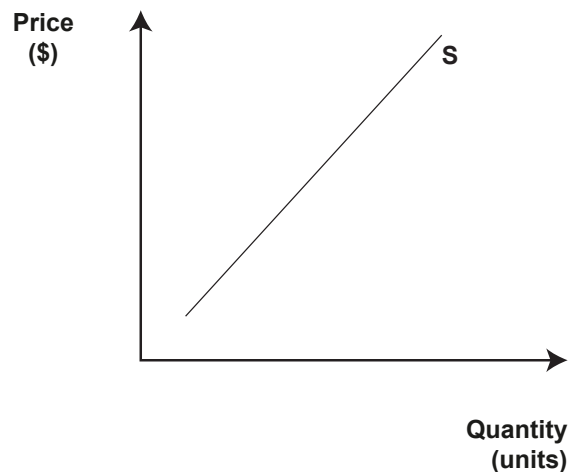


QUESTION THREE: RELATED GOOD

As well as making dining furniture, *Fancy Furniture* also produces a line of office furniture (desks and office chairs).

- (a) Explain the economic relationship between dining furniture and office furniture for *Fancy Furniture*.

- (b) On the sketch graphs below, show how an increase in price of office furniture affects *Fancy Furniture's* supply of office furniture and dining furniture. Fully label the changes you make on the graphs.

Fancy Furniture's* annual supply of office furniture**Fancy Furniture's* annual supply of dining furniture**

(c) Using the graphs on page 6, fully explain the link between the increase in price of **office** furniture and *Fancy Furniture*'s supply of **dining** furniture.

(d) Fully explain ONE possible flow-on effect that the increase in price of office furniture could have on *Fancy Furniture*'s resource use.

