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90986



NEW ZEALAND QUALIFICATIONS AUTHORITY
MANA TOHU MĀTAURANGA O AOTEAROA

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Level 1 Economics, 2017

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

9.30 a.m. Friday 10 November 2017

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 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

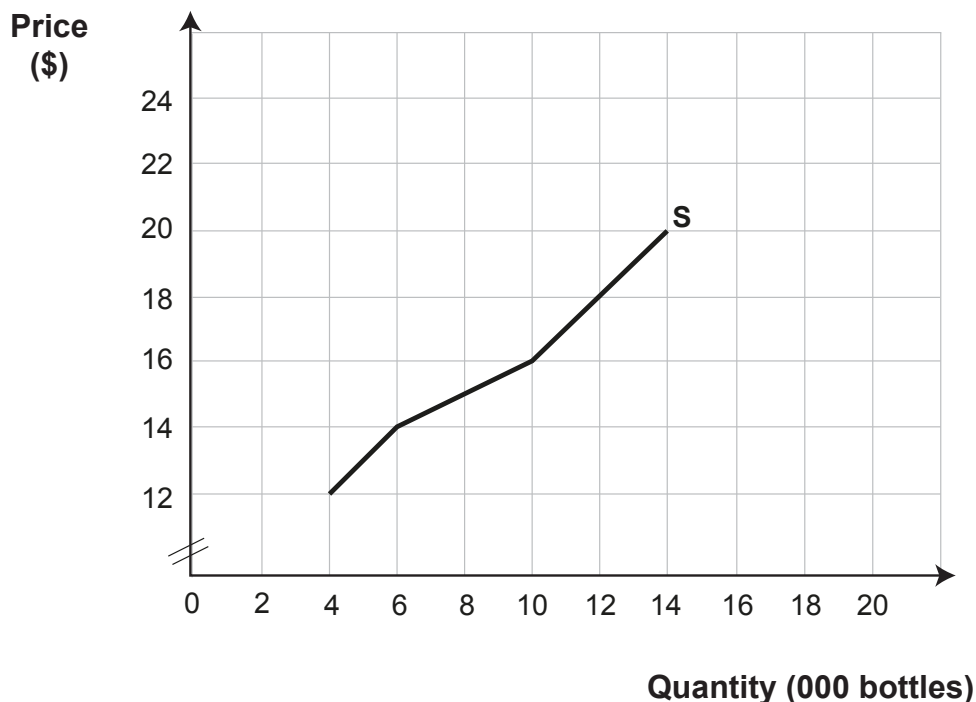
ASSESSOR'S USE ONLY

QUESTION ONE: MARKET EQUILIBRIUM

The table and graph below indicate the market for Vitamin C tablets (large bottle) in New Zealand per month.

Market demand for Vitamin C tablets (large bottle) in New Zealand (monthly)

Price (\$)	South Island (000s)	North Island (000s)	Market demand (000s)
24.00	0.5	1.5	
22.00	1	3	4
20.00	2		6
18.00	3	4	7
16.00		5.5	10
14.00	5.3	6.7	12
12.00	7	8	

Market for Vitamin C tablets (large bottle) in New Zealand (monthly)

- (a) Use the information above to:
- complete the market demand schedule
 - draw the market demand curve
 - use dotted lines to indicate the market equilibrium price (P_e) and market equilibrium quantity (Q_e).

- (b) On the graph above, show the market situation if the price of a large bottle of Vitamin C tablets was \$14.00.

In your answer:

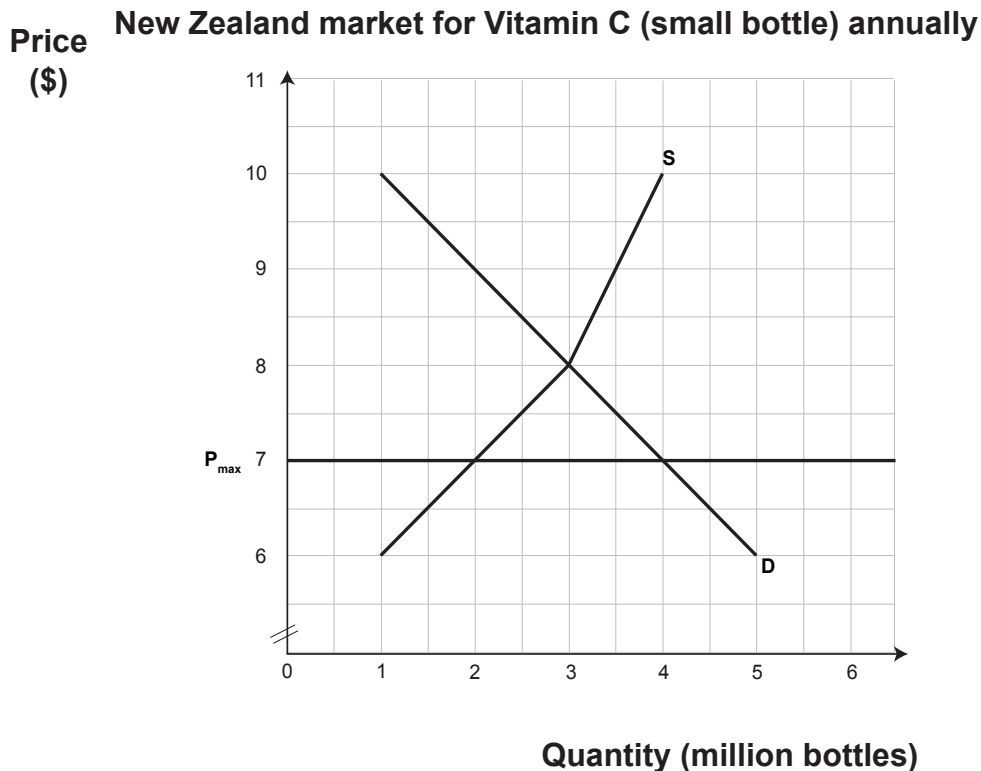
- use dotted lines to show the quantity demanded (label as Q_d)
- use dotted lines to show the quantity supplied (label as Q_s)
- fully label the resulting surplus or shortage.

QUESTION TWO: MAXIMUM PRICE

Taking Vitamin C supplements has been linked to preventing the common cold. Evidence suggests that if people take Vitamin C, a cold does not last as long and it is not so bad.

Source (adapted): <http://sciencelearn.org.nz/Contexts/Food-Function-and-Structure/Looking-Closer/Vitamin-C>

The graph below shows the effect of a maximum price of \$7 per small bottle on the market for Vitamin C.



- (a) On the graph above, show the changes to quantity demanded and quantity supplied of Vitamin C (small bottles), as a result of a maximum price.

In your answer:

- use dotted lines to show the equilibrium price and equilibrium quantity before the maximum price (label as P_e and Q_e)
- use dotted lines to show the new quantity demanded by consumers after the maximum price (label as Q_d)
- use dotted lines to show the new quantity supplied by Vitamin C suppliers after the maximum price (label as Q_s)
- fully label the resulting surplus or shortage.

- (b) Use the graph above to complete the table below.

	Before maximum price	After maximum price
Quantity demanded by consumers	_____ bottles	_____ bottles
Quantity supplied by producers	_____ bottles	_____ bottles
Price received by producers	\$ _____	\$ _____
Revenue received by producers	\$ _____	\$ _____

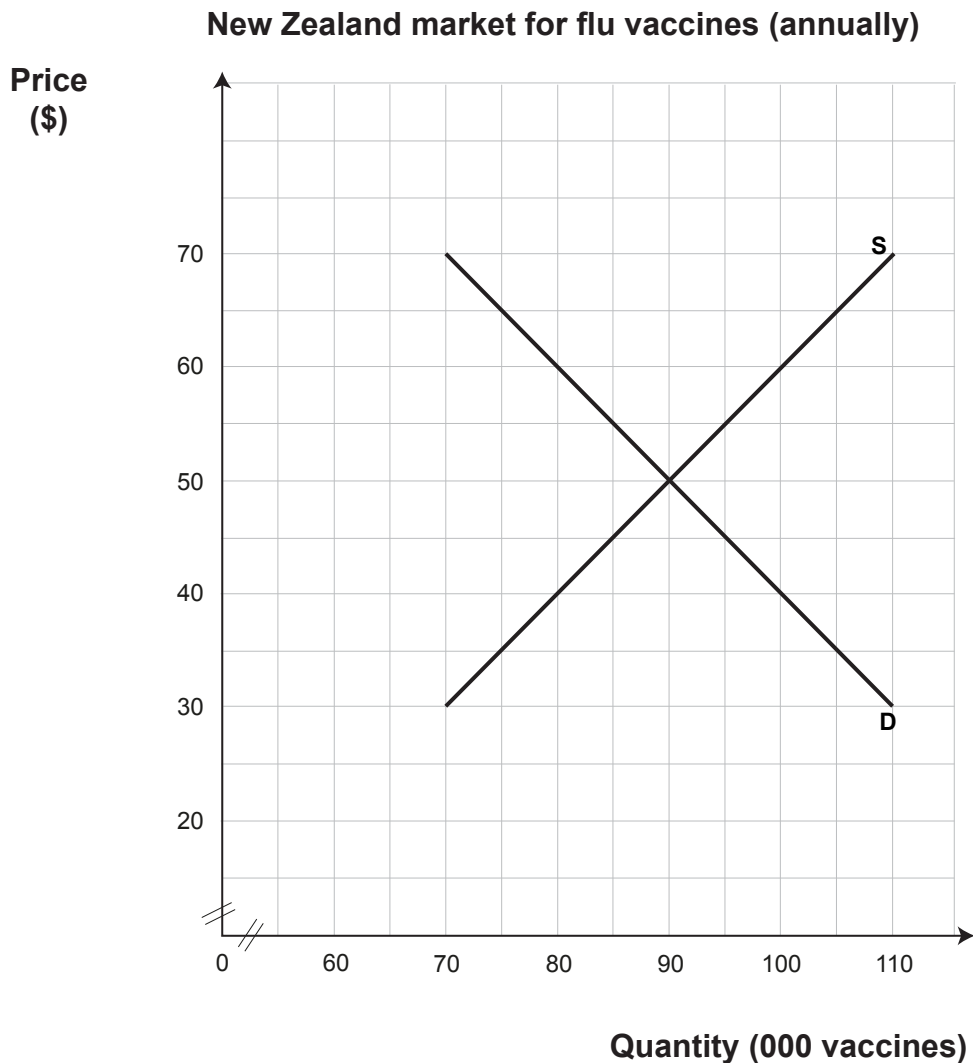
QUESTION THREE: SUBSIDY

One way that the government may prevent people from getting the flu is to subsidise the flu vaccine.

- (a) On the graph below, show the impact of a \$20 subsidy per vaccine on the market for flu vaccines.

In your answer:

- use dotted lines and label the original equilibrium price (P_e) and equilibrium quantity (Q_e)
- shift and relabel the appropriate curve
- use dotted lines to show the new equilibrium price (P_{e1}) and new equilibrium quantity (Q_{e1}).



- (b) Explain the immediate financial effect on the government from the subsidy on flu vaccines.
