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91400



NEW ZEALAND QUALIFICATIONS AUTHORITY
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Level 3 Economics, 2017

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

2.00 p.m. Wednesday 29 November 2017
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.

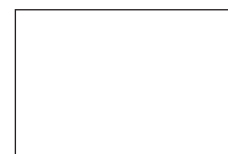
You should attempt ALL the questions in this booklet.

If you need more 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



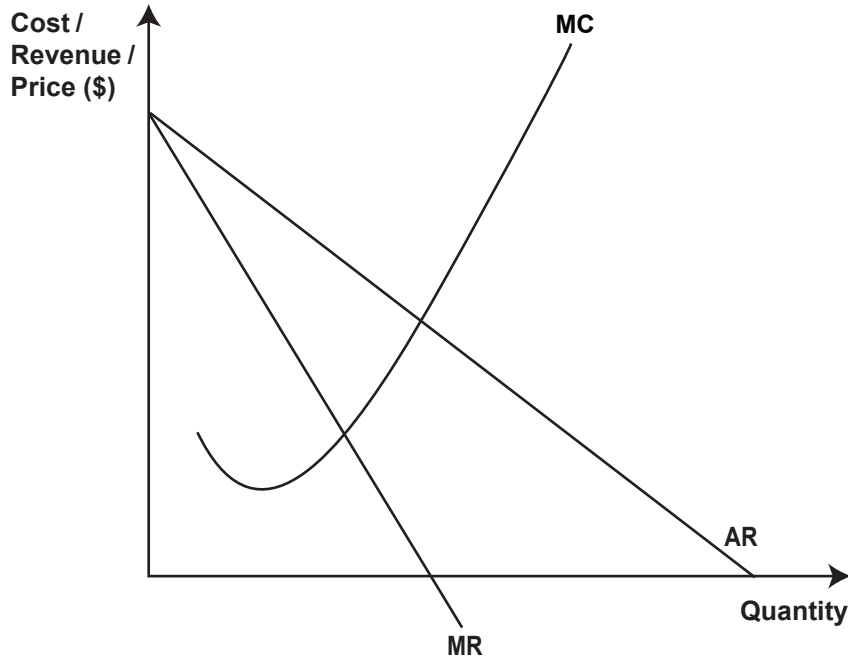
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QUESTION ONE: EFFICIENCY OF MONOPOLY AND PERFECT COMPETITION

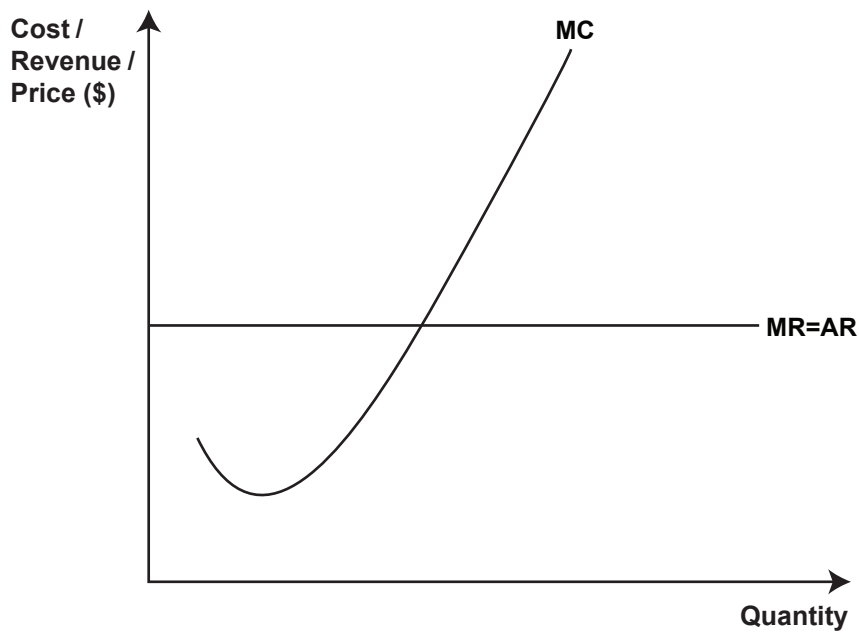
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During the last 40 years, the New Zealand Government has implemented a number of policies designed to reduce monopoly power, encourage more competition, and increase efficiency in significant industries such as electricity, telecommunications, and broadcasting.

Graph One: A firm operating in a monopoly market

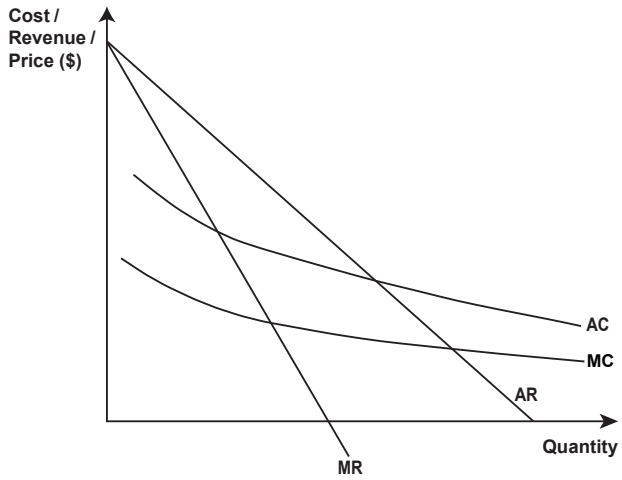


Graph Two: A firm operating in a perfect competition market

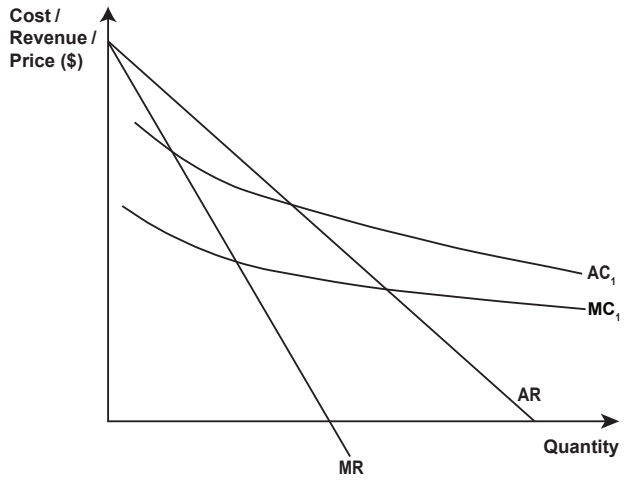


QUESTION TWO: NATURAL MONOPOLY

Graph Three: A natural monopoly



Graph Four: A natural monopoly after an increase in variable costs



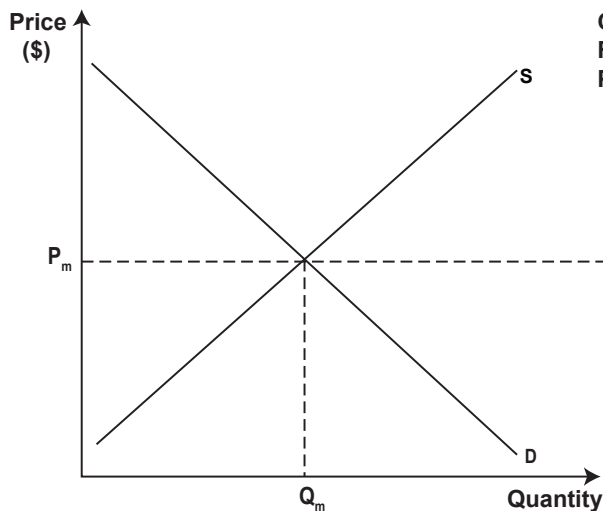
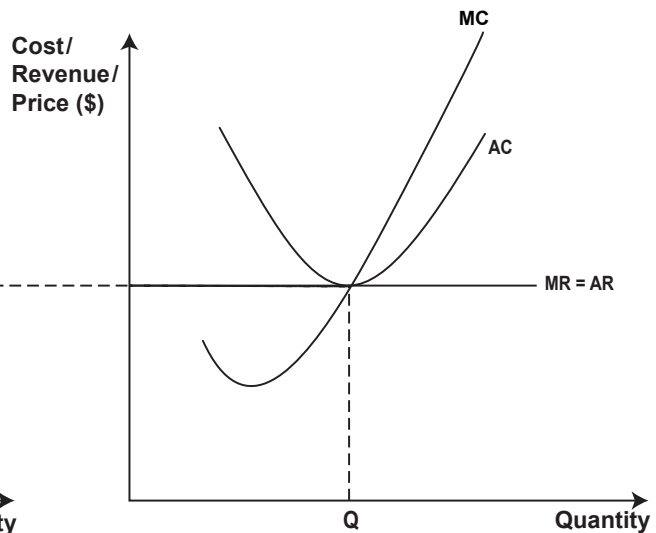
- (a) (i) On Graph Three above, identify the profit-maximising price (**P**) and the profit-maximising quantity (**Q**).
- (ii) On Graph Four above, identify the profit-maximising price (**P₁**) and the profit-maximising quantity (**Q₁**).
- (b) Use the concept of marginal analysis to explain in detail why the increase in variable costs has resulted in a lower quantity produced for the natural monopolist. Refer to both graphs.

QUESTION THREE: PERFECT COMPETITION

The average rent in the Auckland region has increased 21 per cent in the last five years.

Source (adapted) <http://www.stuff.co.nz/life-style/home-property/80706225/auckland-sees-massive-rent-increases--but-not-in-the-places-you-d-expect>

Increased rents have affected both residential and commercial properties in Auckland and will increase the fixed costs for firms that rent their premises.

Graph Five: The market**Graph Six: The individual perfectly competitive firm**

- (a) (i) Complete Graph Six to show the impact of an increase in fixed costs on the individual firm. Clearly label any curve shifts.
- (ii) On Graph Six, clearly shade the new level of economic profit that would be earned by the individual firm as a result of the increase in fixed costs. Identify the profit as normal, supernormal, or subnormal.
- (b) (i) Complete Graph Five to show how the market equilibrium price would be affected in the long run as a result of the increase in fixed costs.
- (ii) On Graph Six, show how the changes in the market would affect the long-run levels of output and profit for the individual firm, assuming that the firm stays in the industry.

