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NEW ZEALAND QUALIFICATIONS AUTHORITY
MANA TOHU MĀTAURANGA O AOTEAROA

QUALIFY FOR THE FUTURE WORLD
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Level 1 Economics, 2018

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

2.00 p.m. Tuesday 13 November 2018
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

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QUESTION ONE: MARKET EQUILIBRIUM

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The demand and supply of New Zealand beef are summarised below:

At $13.00 a kilogram, the market supply was 40 000 kilograms a month and market demand was 50 000 kilograms. If the price increased to $14.00 a kilogram, the market supply would increase to 45 000 kilograms. At $15.00, New Zealand farmers would be willing to supply 50 000 kilograms of beef. If the price increased to $16.00, market supply would increase by 10 000 kilograms. It would then increase to 70 000 kilograms if the price increased by another dollar per kilogram.

(a) (i) Use the information in the resource box above to complete the following market schedule.

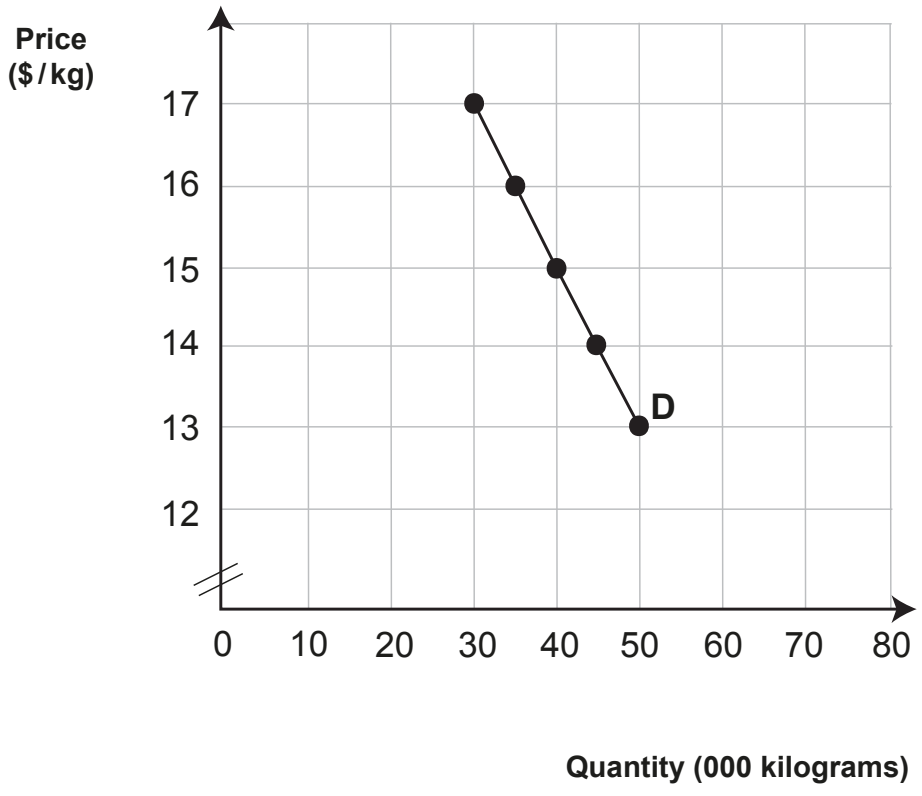
Market for New Zealand beef (per month)

Price ($ per kg)	Market supply (kilograms)	Market demand (kilograms)
13	40 000	50 000
14		45 000
15	50 000	40 000
16		35 000
	70 000	30 000

(ii) Add the market supply curve to the graph below.

(iii) Use dotted lines to indicate the market equilibrium price (P_e) and quantity (Q_e).

Market for New Zealand beef (per month)



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(b) On the graph you drew on page 2, show the market situation if the price of New Zealand beef was $16 per kilogram.
In your answer:

- use dotted lines to show the quantity demanded (label this $\mathbf{Q_d}$)
- use dotted lines to show the quantity supplied (label this $\mathbf{Q_s}$)
- fully label the resulting surplus or shortage.

(c) Explain the resulting surplus or shortage, using data from the table or graph on page 2.

(d) Explain the changes that would be needed in quantity demanded and quantity supplied if the goal were to restore equilibrium.
In your answer, refer to:

- figures from the graph
- law of demand
- law of supply.

(e) Explain the market situation at which the equilibrium is restored.

QUESTION TWO: MINIMUM PRICE

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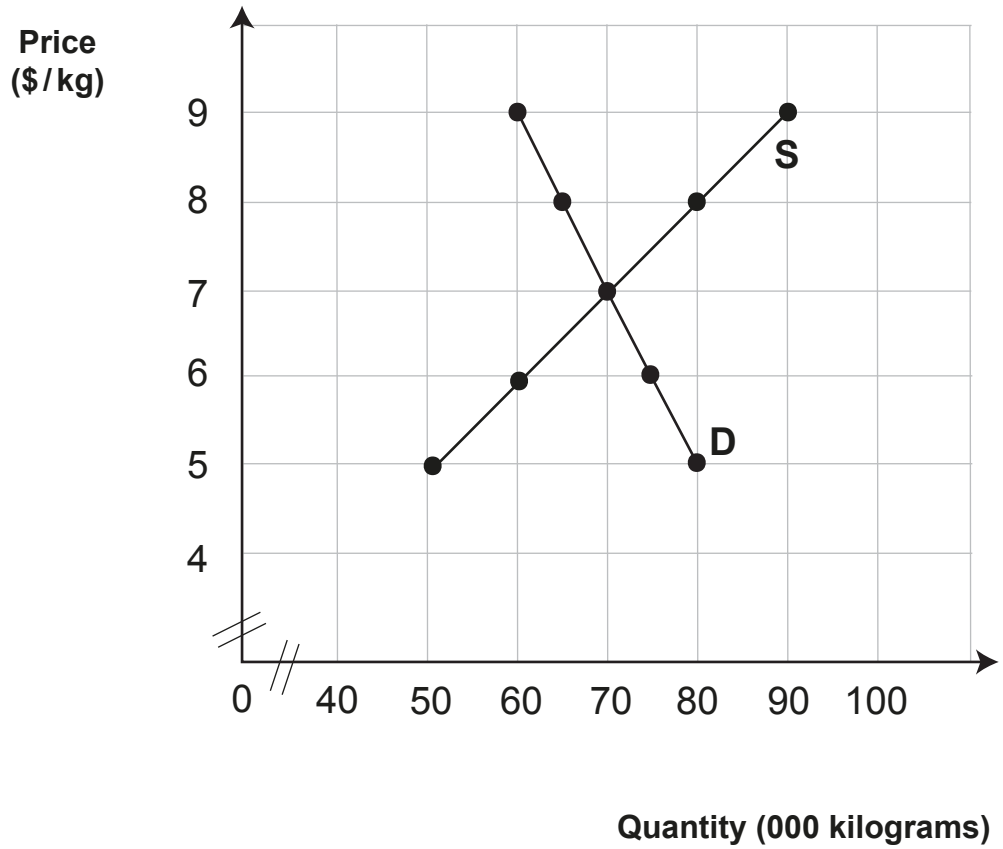
Across New Zealand, consumers are opting for cheaper Australian cuts of lamb. In order to protect New Zealand farmers, the Government has set a minimum price for New Zealand lamb at $8.00/kg.

Source: https://www.stuff.co.nz/business/farming/beef/70132165/cheap-australian-meat-floods-onto-new-zealand-market (12 July 2015)

Market for New Zealand lamb per kg (per month)



(a) On the graph above, complete the following changes:

- use dotted lines to show the equilibrium price and equilibrium quantity before the minimum price (label as $\mathbf{P_e}$ and $\mathbf{Q_e}$)
- draw a horizontal line to show the minimum price which the Government has set. Label the minimum price line as $\mathbf{P_{min}}$
- use dotted lines to show the new quantity demanded by consumers after the minimum price (label as $\mathbf{Q_d}$)
- use dotted lines to show the new quantity supplied by lamb farmers after the minimum price (label as $\mathbf{Q_s}$)
- fully label the resulting surplus or shortage.

(b) Use the graph and / or data on page 4 to fully explain the effect of introducing a minimum price on New Zealand lamb farmers.
In your answer:

- explain the change in price
- explain the change in quantity supplied
- explain the change in consumption and consumer spending on New Zealand lamb.

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(c) Explain TWO flow-on effects on society in general of introducing a minimum price for New Zealand lamb.

QUESTION THREE: TAX

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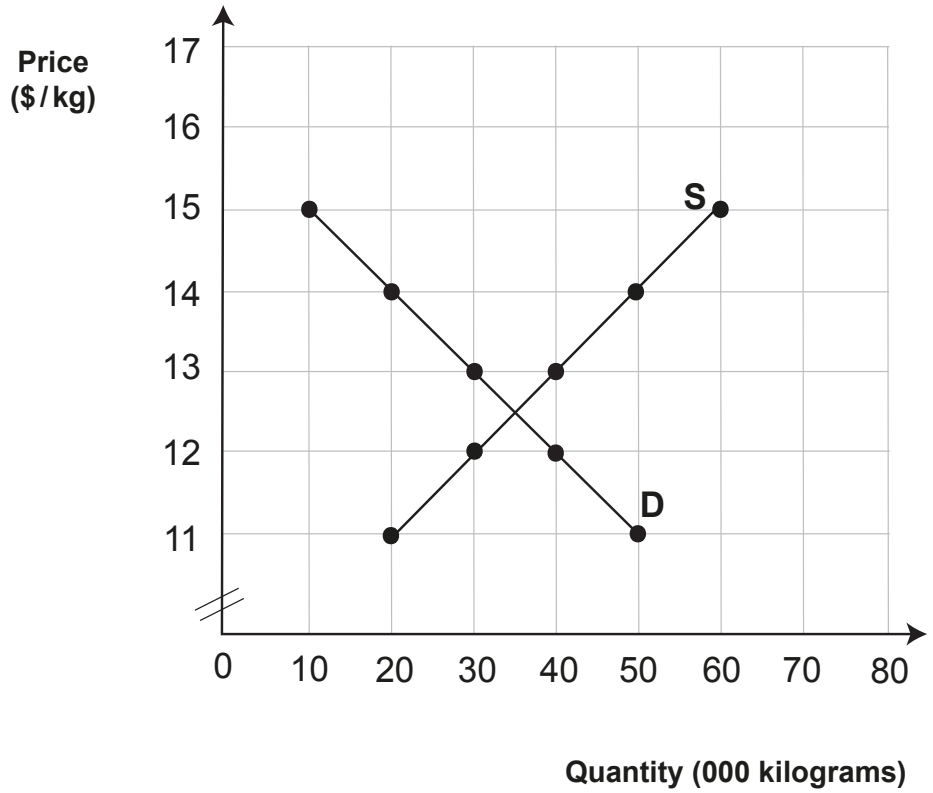
Another way that the New Zealand Government could protect the New Zealand farmers' incomes is to implement a tax charged on any meat imported from Australia.

(a) On the graph below, show the effect of a $2.00 tax per kilogram on Australian meat.
Use dotted lines to show:

- the original equilibrium price (label as $\mathbf{P_e}$) and equilibrium quantity (label as $\mathbf{Q_e}$)
- the new equilibrium price (label as $\mathbf{P_{e1}}$)
- the new equilibrium quantity (label as $\mathbf{Q_{e1}}$).

Market for Australian meat in New Zealand (per month)



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

(i) the quantity New Zealand **consumers buy** before and after tax

Before: _____ kilograms After: _____ kilograms

(ii) the price New Zealand **consumers pay** before and after tax

Before: $ _____ per kg After: $ _____ per kg

(iii) the price Australian **farmers receive** before and after tax

Before: $ _____ per kg After: $ _____ per kg

(iv) the total revenue **per month** to the New Zealand Government as a result of this tax.

$ _____

(c) Using the graph on page 6 and your calculations, fully explain how a tax on Australian meat could change the price to New Zealand consumers and affect New Zealand consumer spending on Australian meat.

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(d) Using the graph on page 6 and your calculations, fully explain how a tax on Australian meat could change the price received by Australian farmers and affect their revenue.

(e) Using the graph on page 6 and your calculations, fully explain how a tax on Australian meat could affect the New Zealand Government in the short and long term.

(f) Fully explain how the tax charged on Australian meat imported into New Zealand could affect New Zealand meat farmers.

Extra space if required.
Write the question number(s) if applicable.

QUESTION NUMBER

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