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Level 1 Economics 2020

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

2.00 p.m. Monday 23 November 2020
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 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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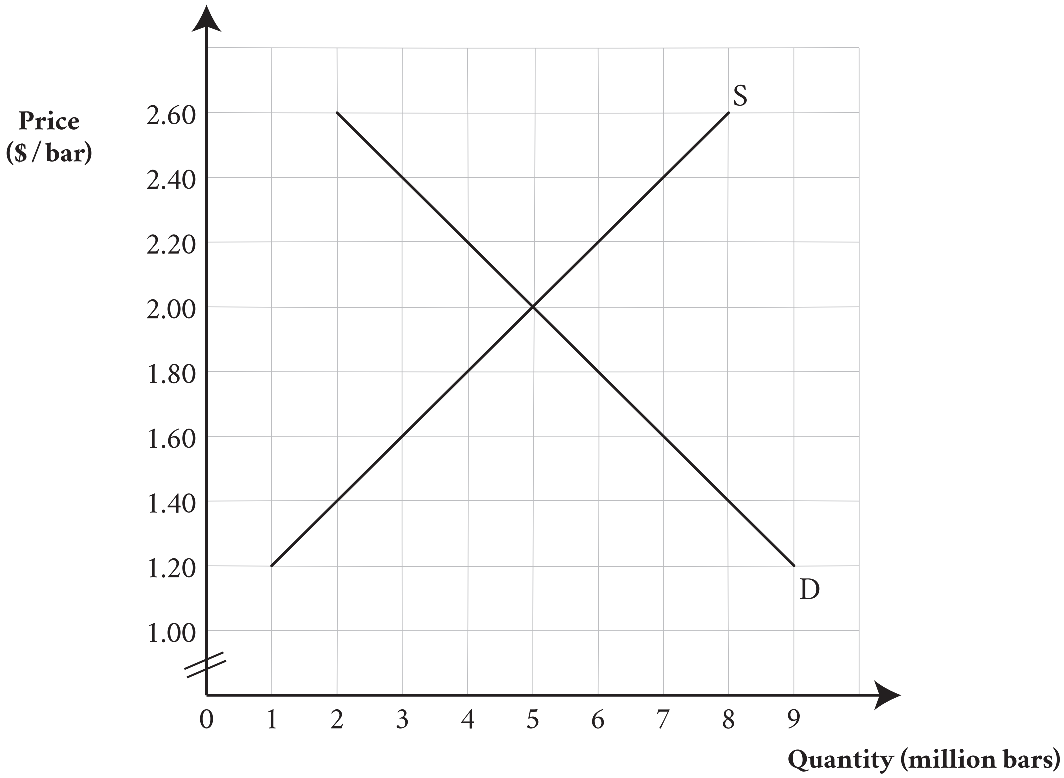
QUESTION ONE: Tax

In order to reduce the consumption of food with a high fat content, the government could tax high-fat foods. Chocolate is one of those foods.

(a) On the graph below, show the effect of a 40c tax per 50g (gram) chocolate bar. Use dotted lines to show:

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

New Zealand annual market for chocolate (50g bars)



(b) Identify and calculate:

(i) Quantity consumers buy before and after tax

Before: ______________ bars After: ______________ bars

(ii) Price consumers pay before and after tax

Before: $ ______________ After: $ ______________

(iii) Price producers receive before and after tax

Before: $ ______________ After: $ ______________

(iv) Total revenue per year received by the government due to this tax

$ ______________________________

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(c) Using the graph from part (a), and your calculations, fully explain how a tax on chocolate would change the price to consumers and affect consumer spending.

(d) Using the graph from part (a), and your calculations, fully explain how a tax on chocolate would change the price received by the producers and affect producer revenue.

(e) Identify the short-term financial effect that a tax on chocolate would have on the government.

(f) Fully explain a long-term effect that may occur for the government as a result of a tax on chocolate.

(g) Fully explain a flow-on effect for society that may occur as a result of a tax on chocolate.

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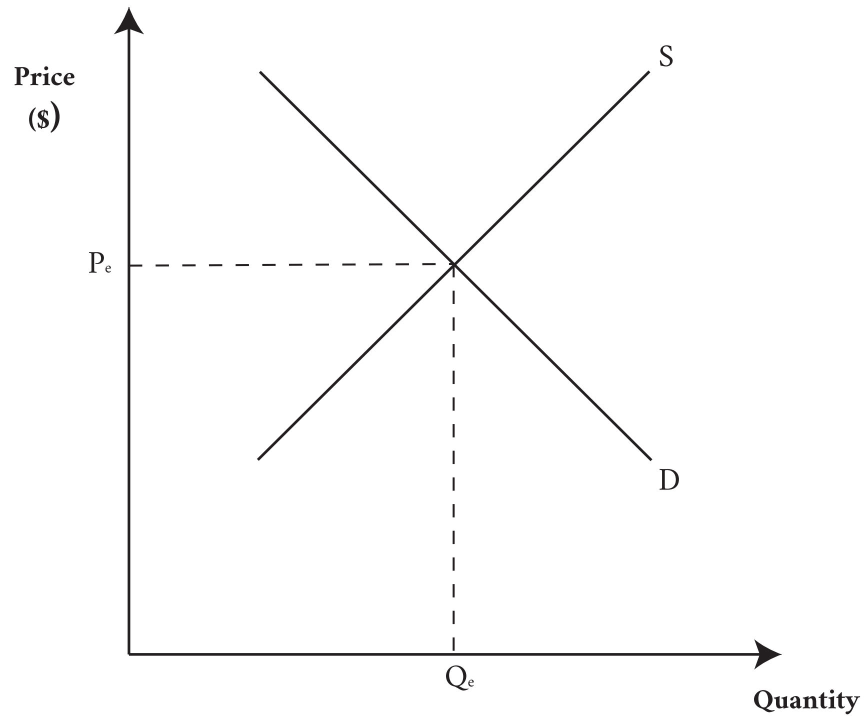
QUESTION TWO: Change in demand

Chocolate companies want to boost their sales, so they have started to promote the health benefits of eating chocolate. Some benefits may include: high in antioxidants, lowered risk of heart disease and improved brain function.

Source: https://www.healthline.com/nutrition/7-health-benefits-dark-chocolate

(a) On the graph below, show the effect of changes in demand on the market for chocolate.
- show the effect the publicity has on market demand
- fully label the changes
- use dotted lines and labels to show the new equilibrium price (P_{e1}) and quantity (Q_{e1}).

Market demand for chocolate (weekly)



(b) Fully explain the effect this change in demand would have on market equilibrium and consumers. In your answer, discuss:
- how market demand is determined
- the changes you made to the graph above
- the effect on consumers of the change in demand for chocolate.

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(c) Fully explain a flow-on effect the change in demand for chocolate will have on producers.

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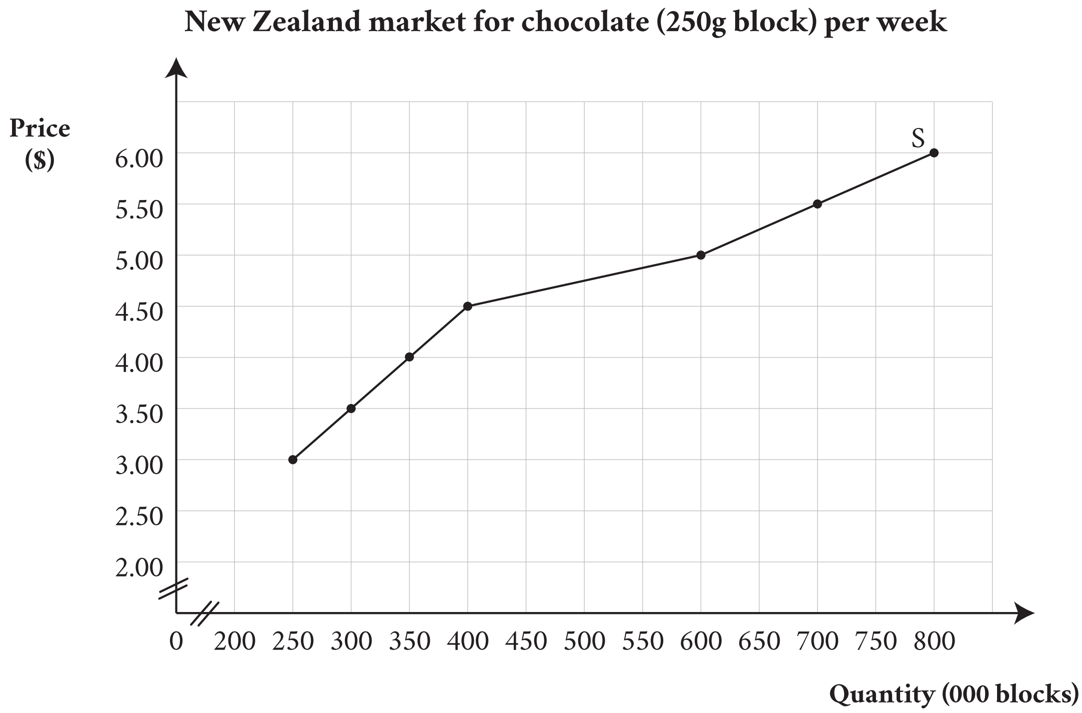
QUESTION THREE: Market equilibrium



(a) Use the information from the graph to complete the market schedule below.

New Zealand market for chocolate (250g block) per week

Price ($)	Market demand (000 blocks)	Market supply (000 blocks)
3.00	600	
3.50	550	
4.00	450	350
4.50	400	400
5.00	300	
5.50	250	
6.00	200	800

(b) On the graph above:

(i) Add the market demand curve.

(ii) Use dotted lines and labels to indicate market equilibrium price (Pe) and quantity (Qe).

(iii) Show the market situation if the price for a 250g block of chocolate was $5.00.

(iv) Use dotted lines and label the quantity demanded at this price (QD).

(v) Use dotted lines and label the quantity supplied at this price (QS).

(vi) Fully label the resulting surplus or shortage.

(c) Using data from the graph, define the resulting surplus or shortage.

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(d) Using data from the graph, fully explain the changes that would be needed in order to restore equilibrium.

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

QUESTION NUMBER

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