

# 3

91399



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## Level 3 Economics 2020

### 91399 Demonstrate understanding of the efficiency of market equilibrium

2.00 p.m. Friday 4 December 2020  
Credits: Four

Achievement	Achievement with Merit	Achievement with Excellence
Demonstrate understanding of the efficiency of market equilibrium.	Demonstrate in-depth understanding of the efficiency of market equilibrium.	Demonstrate comprehensive understanding of the efficiency of 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 2–11 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.**

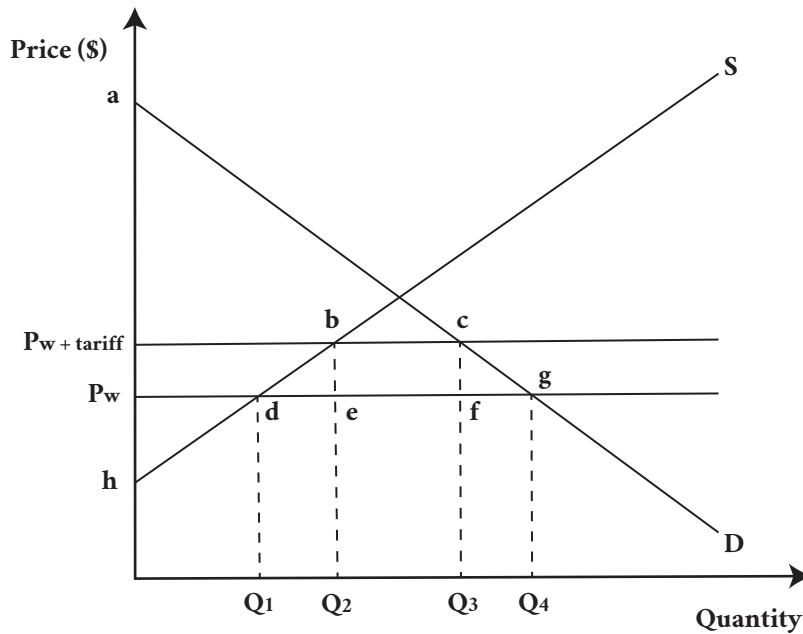
**TOTAL**

ASSESSOR'S USE ONLY

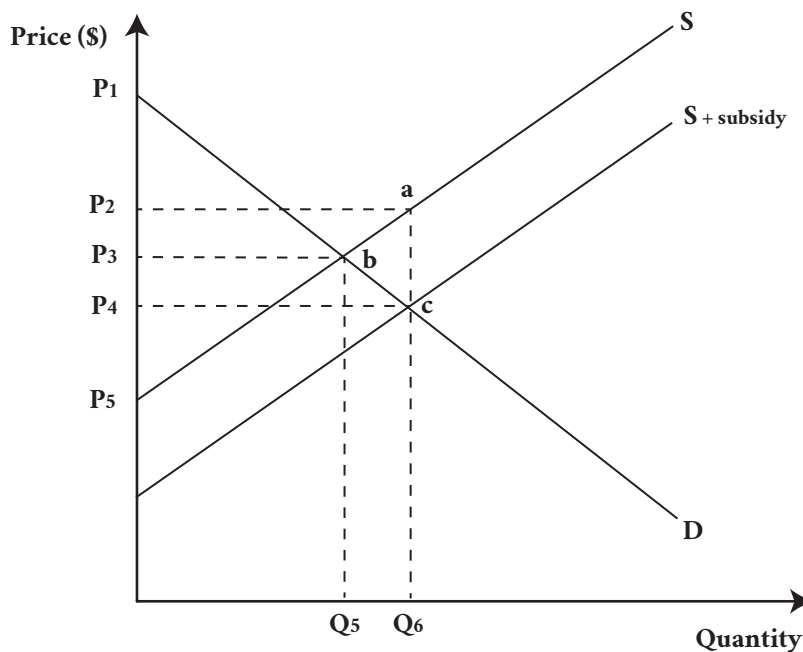
### QUESTION ONE: Protecting local industry

Two policy options for the Government, if it wishes to protect local industry, are imposing tariffs on imported goods, or subsidising the production of New Zealand-made goods that compete with imported goods.

**Graph One: A market for an imported good with a tariff imposed (price taker model)**



**Graph Two: A market for a locally-made good with a subsidy**





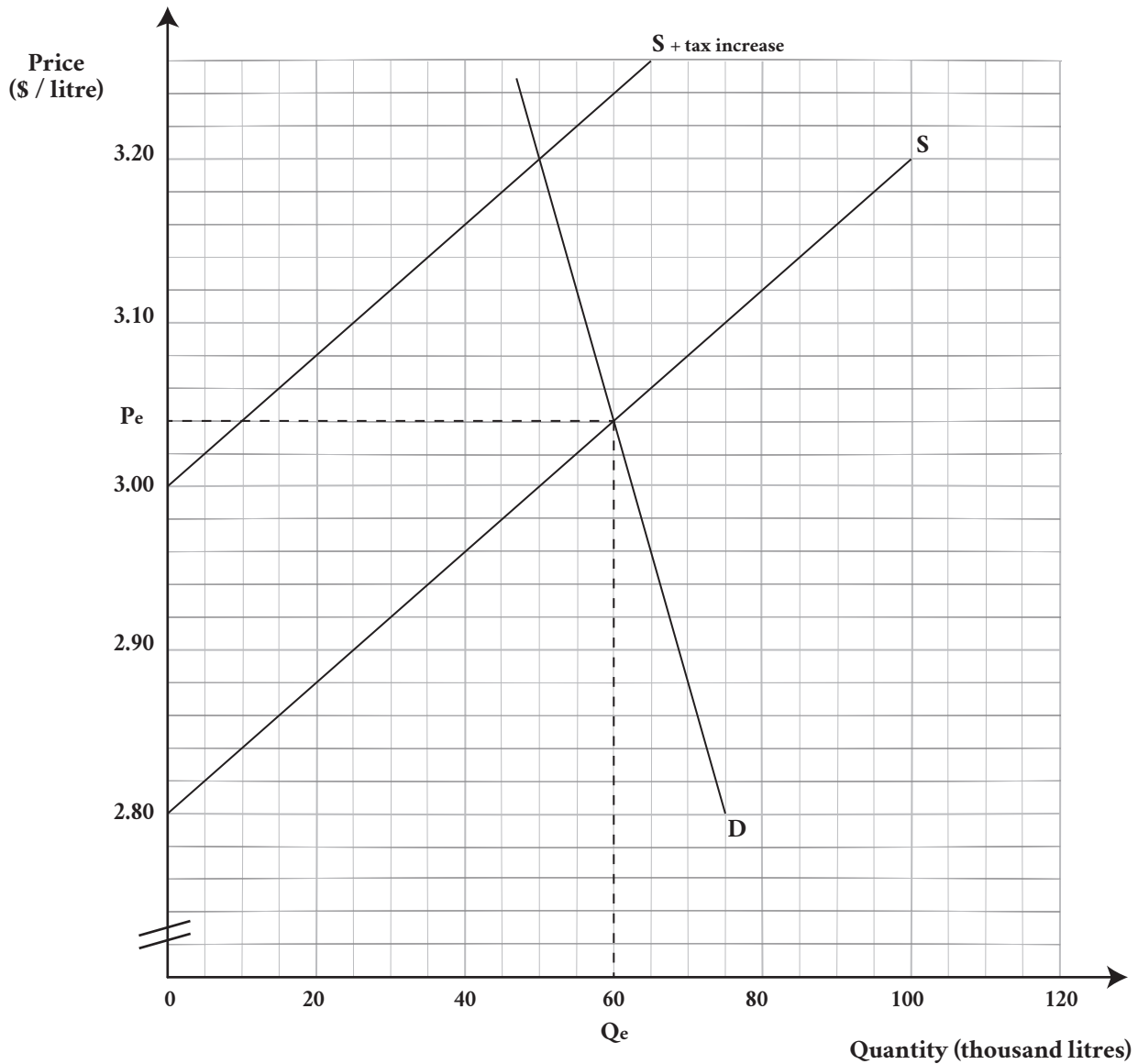
## QUESTION TWO: Taxes on alcohol

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USE ONLY

Excise taxes on alcohol are adjusted annually to reduce consumption and the negative impacts of excessive drinking.

Source (adapted): <https://www.customs.govt.nz/about-us/news/important-notice/new-excise-duty-rates-for-alcohol-from-1-july-2019/>

**Graph Three: The market for an alcoholic drink after a 20c / litre tax increase**



- (a) Refer to Graph Three to calculate the values in the table below, specifying an increase or decrease. Space for working is provided.

**Table One**

	<b>Working</b>	<b>\$ value</b>
<b>Change in consumer surplus</b>		
<b>Change in producer surplus</b>		
<b>Tax revenue for government</b>		
<b>Deadweight loss</b>		

- (b) Explain, in detail, the impact of the tax increase on consumer surplus. Refer to Graph Three and Table One in your answer.

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- (c) Explain, in detail, the impact of the tax increase on producer surplus. Refer to Graph Three and Table One in your answer.

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(d) Compare and contrast the impact of the tax increase on consumers and producers of the alcoholic drink in Graph Three.

In your answer:

- explain, in detail, whether the tax increase will have a greater impact on consumer surplus or producer surplus
- refer to Graph Three and Table One, and the price elasticity of demand for alcohol.

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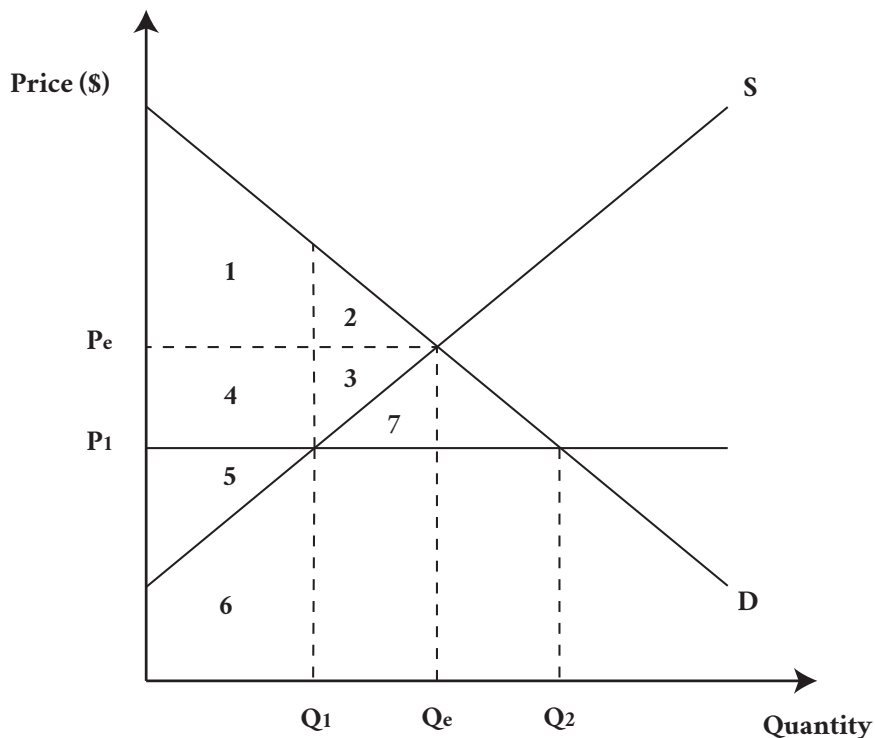
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### QUESTION THREE: The New Zealand housing market

Despite a significant increase in the total number of houses, New Zealand still has a shortage of affordable houses. Due to population growth, the increase in the supply of houses is not matching the increase in demand for houses.

Source (adapted) : <http://www.scoop.co.nz/stories/BU1907/S00495/new-zealands-housing-shortage-is-getting-worse-not-better.htm>

**Graph Four: The New Zealand housing market with a shortage at price  $P_1$**



(a) Use the numbers from Graph Four to identify the:

- (i) consumer surplus at  $P_1$ : \_\_\_\_\_
- (ii) producer surplus at  $P_1$ : \_\_\_\_\_
- (iii) deadweight loss at  $P_1$ : \_\_\_\_\_

(b) Assume the price is initially at  $P_1$  in the New Zealand housing market. Explain, in detail, how house prices and the shortage of houses would be affected if market forces were operating freely. Refer to Graph Four in your answer.

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- (c) Compare and contrast the impact on consumer surplus, producer surplus, and allocative efficiency if equilibrium is restored in the New Zealand housing market. Refer to Graph Four in your answer.



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

QUESTION  
NUMBER

Lined writing area for student responses, consisting of horizontal lines extending across the page from the 'QUESTION NUMBER' column.

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