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Level 1 Economics 2022

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

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.

Do not write in any cross-hatched area (✂). This area may be cut off when the booklet is marked.

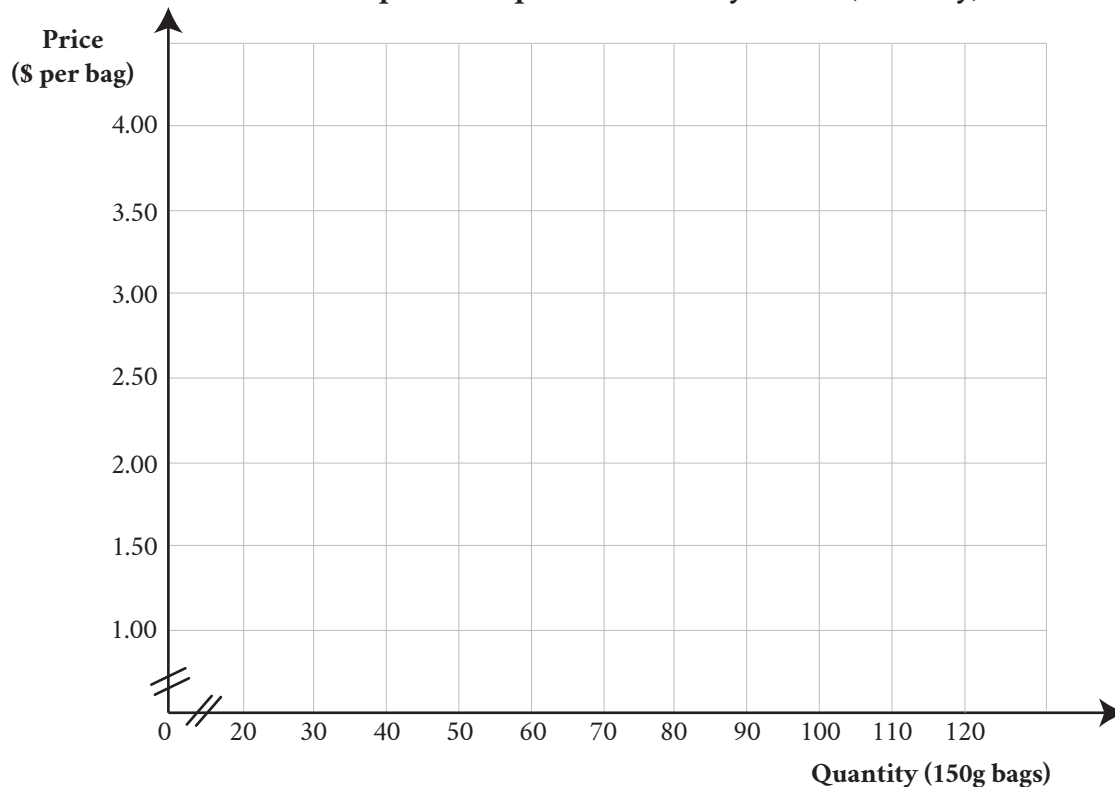
YOU MUST HAND THIS BOOKLET TO THE SUPERVISOR AT THE END OF THE EXAMINATION.

QUESTION ONE: Market equilibrium

- (a) Using the information from the table, construct the market demand and supply curves for potato chips on the graph, below.

Market for potato chips in a secondary school (monthly)

Price (\$ per 150g bag)	Supply (150g bags)	Demand (150g bags)
1.00	25	120
1.50	35	100
2.00	40	70
2.50	55	55
3.00	70	50
3.50	85	45
4.00	100	30

Market for potato chips in a secondary school (monthly)

- (b) On the graph above, use dotted lines to show the market equilibrium price (P_e) and quantity (Q_e).
- (c) On the graph above, show the market situation at \$1.50 for a 150g bag of potato chips. In your answer:
- use dotted lines to show the quantity demanded (Q_d) and the quantity supplied (Q_s)
 - label the resulting surplus or shortage.

(d) Use data from the graph on page 2 to answer (i) to (v) below.

(i) Explain the surplus or shortage that results from a price of \$1.50 per bag.

(ii) Explain how consumers will respond to the market situation at \$1.50 per bag.

(iii) Explain what will happen to the quantity demanded as a result of the consumers' action in part (ii).

(iv) Explain what will happen to the quantity supplied as a result of the consumers' action in part (ii).

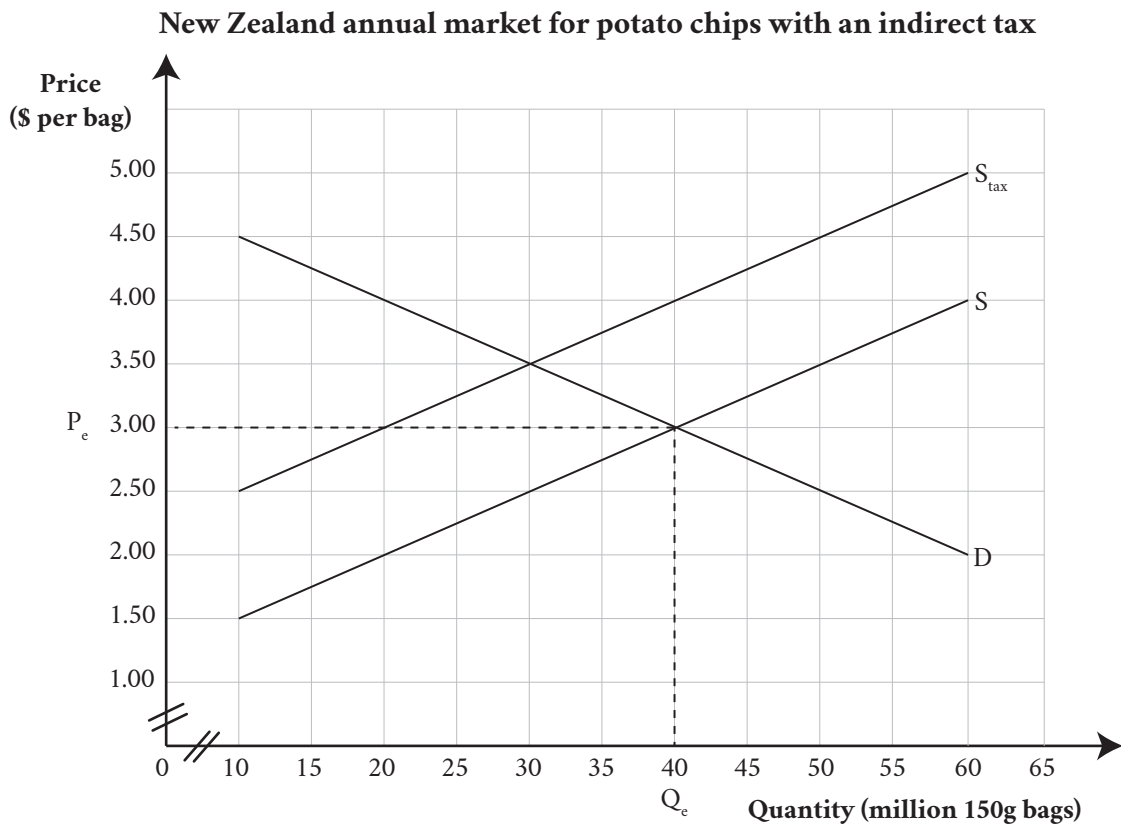
(v) What will the price and quantity of potato chips be when equilibrium is restored?

QUESTION TWO: Indirect tax

A study has found a tax on junk food _____

 _____ chips so fewer are consumed.

- (a) On the graph below show the effect of a tax on potato chips. Use dotted lines and labels to show:
- (i) the new equilibrium quantity (Q_1)
 - (ii) the price the consumers pay after the tax (P_c)
 - (iii) the price the producers receive after the tax (P_p).



- (b) Calculate the tax revenue received by the Government.

\$ _____

- (c) Calculate the following.

	Before the tax	After the tax
Consumer spending	\$ _____	\$ _____
Producer revenue	\$ _____	\$ _____

(d) Use data from the graph and your calculations on page 4 to answer (i) to (iii) below.

(i) Explain the impact the tax will have on the price consumers pay and the price producers receive for potato chips.

(ii) Explain the impact the tax will have on consumer spending and producer revenue.

(iii) Explain the financial impact the tax will have on the Government in the short and long term.

(e) Explain a positive flow-on effect for society as a result of a tax on potato chips.

(c) Use the data from the graph on page 6 to explain the impact of the minimum price control on the quantity sold of potato chips.

(d) Explain TWO possible flow-on effects of the minimum price control for producers.

Acknowledgements

Material from the following source has been adapted for use in this assessment:

Page 4

Witton, B. (2020, 15 July). Junk food tax would help people lose weight and save thousands – study. *Stuff*. <https://www.stuff.co.nz/national/health/122135705/junk-food-tax-would-help-people-lose-weight-and-save-thousands--study>

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

QUESTION
NUMBER

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