

# **National Certificate of Educational Achievement**

## **2012 Assessment Report**

### **Economics Level 3**

- 90629 Understand marginal analysis and the behaviour of firms**
- 90630 Describe an economic problem, allocative efficiency, and market responses to change**
- 90631 Describe market failure and government interventions to correct for market failure**
- 90632 Describe aggregate economic activity**

## COMMENTARY

Candidates are expected to read and then use the resource material their answers. Candidates who achieved with Merit and Excellence linked their responses to the resource material and referred to the graphs in their explanations.

Candidates should attempt all parts of questions, as often earlier parts of questions lead towards later parts which combine to contribute towards Merit and Excellence grades.

Candidates who only completed graph work but failed to give explanations were unlikely to achieve as they did not provide sufficient evidence.

## STANDARD REPORTS

### 90629 Understand marginal analysis and the behaviour of firms

#### ACHIEVEMENT

**Candidates who were awarded Achievement for this standard demonstrated the required skills and knowledge. They typically:**

- described characteristics of the required market structure
- correctly calculated figures and followed correct graphing conventions
- used a full explanation of the Optimal Purchase Rule i.e. stated a consumer will continue to purchase until Price (P) = Marginal Utility (MU)
- partly derived a supply schedule from data but missed identifying the shutdown point
- identified breakeven point as Marginal Costs (MC) = Average Costs (AC)
- referred to MC and Marginal Revenue (MR) in explaining why profit was maximised at Equilibrium Quantity (Qe)
- partially attempted marginal analysis by identifying that output must decrease to new profit maximising point where  $MC^1 = MR$  when variable costs increase
- correctly graphed Marginal Revenue (MR)/Average Revenue (AR) curves for a perfect competitor and then went on to correctly identify the price, level of output and the area representing the subnormal profit
- partially explained why MR and AR are the same by making the link to perfect competitors being price takers.

#### NOT ACHIEVED

**Candidates who were assessed as Not Achieved for this standard lacked some or all of the skills and knowledge required for the award of Achievement. They typically:**

- incorrectly identified market structures
- used an abbreviated version of the Optimal Purchase Rule i.e. simply stated  $P = MU$
- drew an MR curve which crossed the X axis beyond the mid-way point between the origin and where the AR curve intersects the X axis
- correctly shaded but then incorrectly labelled the profit type
- referred to average cost and average revenue when explaining why profit is maximised at Qe

- referred to MC and MR in explaining why profit was maximised, but made no reference to  $Q_e$
- stated that long run and short run equilibrium positions for a monopolist are different
- drew AR/MR curves for an imperfect competitor in a perfect competition question.

### **ACHIEVEMENT WITH MERIT**

**In addition to the skills and knowledge required for the award of Achievement, candidates who were awarded Achievement with Merit typically:**

- fully derived a supply schedule from data and correctly identified shutdown point
- explained why the long run and short run positions for a monopolist are unchanged
- made a partial attempt at marginal analysis by identifying that output must decrease to new profit maximising point where  $MC^1 = MR$  when variable costs increase because these cause MC to be greater than MR at the original equilibrium position
- identified that the price rises when variable costs (VC) increase
- fully explained why MR and AR are the same, by making the link to perfect competitors being price takers and then linking this concept to MR being constant at all additional levels of output
- partially explained why supernormal profits are only a short run phenomenon for perfect competitors.

### **ACHIEVEMENT WITH EXCELLENCE**

**In addition to the skills and knowledge required for the award of Achievement with Merit, candidates who were awarded Achievement with Excellence typically:**

- used marginal analysis to fully explain that output decreases to a new profit maximising point where  $MC^1 = MR$  when variable costs increase
- clearly identified that increased VC cause MC to be greater than MR at the original equilibrium position and explained that by continuing to operate at the earlier equilibrium, the firm incurs marginal losses
- identified that the price rises when variable costs increase and fully explained this with links to the market demand curve to explain why the price rises
- identified that disequilibrium occurred at the original profit maximising level of output when price rose, and made reference to the marginal profits being missed out on
- fully explained why supernormal profits are only a short run phenomenon for perfect competitors.

## **90630 Describe an economic problem, allocative efficiency, and market responses to change**

### **ACHIEVEMENT**

**Candidates who were awarded Achievement for this standard demonstrated the required skills and knowledge. They typically:**

- accurately drew and labelled graphs
- described the concept of scarcity with reference to the Production Possibility Frontier (PPF)
- described reallocation of resources from one output to another
- correctly defined terms such as allocative efficiency and price elasticity of demand (PED)

- calculated PED using mid-point method
- stated a reason for inelasticity
- described what cross elasticity shows
- described how market forces lead to changes in equilibrium price and quantity
- identified changes to price or quantity as a result of a subsidy.

### **NOT ACHIEVED**

**Candidates who were assessed as Not Achieved for this standard lacked some or all of the skills and knowledge required for the award of Achievement. They typically:**

- described scarcity generically rather than using the PPF
- failed to recognise that resources were shifted from one area to another
- confused quantity demanded with demand and quantity supplied with supply
- used inappropriate non-economic language and emotive language
- could not use/interpret economic graphs.

### **ACHIEVEMENT WITH MERIT**

**In addition to the skills and knowledge required for the award of Achievement, candidates who were awarded Achievement with Merit typically:**

- explained how market forces operate to move to a new equilibrium
- explained the impact of a subsidy on the market with reference to figures from the graph e.g. by referring to the new prices and quantities
- explained changes in the labour market and understood the concept of derived demand
- differentiated between the quantity supplied and quantity demand of labour as opposed to supply and demand for labour
- explained the concept of PED and how it affects incidence of subsidy.

### **ACHIEVEMENT WITH EXCELLENCE**

**In addition to the skills and knowledge required for the award of Achievement with Merit, candidates who were awarded Achievement with Excellence typically:**

- referred to the resource materials and wrote in context rather than generically
- explained the impact of the subsidy on producers and consumers using the graph to calculate changes in revenue, spending and, consumer and producer surpluses
- linked calculations of elasticity to explanations
- fully explained, with reference to graphs
- understood that wages act like any other price
- used economic (rather than lay and emotive) reasons to fully explain answers.

## **90631 Describe market failure and government interventions to correct for market failure**

### **ACHIEVEMENT**

**Candidates who were awarded Achievement for this standard demonstrated the required skills and knowledge. They typically:**

- described the effect of interventions, but could not compare to other policies

- recognised the market failure of fast food as being over consumed
- linked the example/context to the concept i.e. non-excludable by price and national parks and negative externalities of consumption and fast food.

### **NOT ACHIEVED**

**Candidates who were assessed as Not Achieved for this standard lacked some or all of the skills and knowledge required for the award of Achievement. They typically:**

- confused the use of economic terms e.g. demand as opposed to quantity demand
- identified the negative externality of consumption as a private cost (e.g. fast food causes obesity) rather than a spill over cost (e.g. increased health spending due to increased obesity rates)
- stated an alternative policy without describing its effect on the market
- attempted the graph questions but did not attempt the explanations.

### **ACHIEVEMENT WITH MERIT**

**In addition to the skills and knowledge required for the award of Achievement, candidates who were awarded Achievement with Merit typically:**

- illustrated market failure with an economic model
- used resources in explanations
- explained the effects of a policy without making an explicit comparison of why one policy was better than the other.

### **ACHIEVEMENT WITH EXCELLENCE**

**In addition to the skills and knowledge required for the award of Achievement with Merit, candidates who were awarded Achievement with Excellence typically:**

- compared and contrasted policies with reasons why one was better
- fully explained with a logical sequence of events
- evaluated various government interventions to the market failure using their own knowledge as well as the resource material supplied.

## **90632 Describe aggregate economic activity**

### **ACHIEVEMENT**

**Candidates who were awarded Achievement for this standard demonstrated the required skills and knowledge. They typically:**

- drew accurate AS AD models to demonstrate concepts and effects
- identified components of aggregate demand and described how they would be affected by a decrease in interest and an appreciation of the NZ dollar.

### **NOT ACHIEVED**

**Candidates who were assessed as Not Achieved for this standard lacked some or all of the skills and knowledge required for the award of Achievement. They typically:**

- failed to show the impact of growth and inflation on the AS AD model
- incorrectly identified the effects of a currency appreciation.

## **ACHIEVEMENT WITH MERIT**

**In addition to the skills and knowledge required for the award of Achievement, candidates who were awarded Achievement with Merit typically:**

- explained the impact of an appreciation on aggregate demand and supply
- explained how exchange rate traders diversifying their portfolios away from US and Euro would increase demand for substitutes like the NZ dollar causing it to appreciate
- could explain how increased saving would reduce the consumption and its impact on inflation and economic growth.

## **ACHIEVEMENT WITH EXCELLENCE**

**In addition to the skills and knowledge required for the award of Achievement with Merit, candidates who were awarded Achievement with Excellence typically:**

- understood that when both AS and AS shift it may not be possible to determine the impact on economic growth and or inflation
- explained that lower interest rates would increase firms investment as the lower borrowing costs increase the (real) profitability of capital projects and result in increases in AD not AS
- recognised qualified the immediate impact on AD, by explaining that increased investment may cause an increase in AS in the long run but only if the investment results in an increase in productivity
- understood that the impact of a decrease in interest rate for firms is that it weakens the dollar, raising imported raw material costs of production and so decreases the aggregate supply.

## **OTHER COMMENTS**

Few candidates understood how strong terms of trade affected the NZ economy.