

PART A (Questions 1 to 3)

(45 marks)

Answer **all** parts of Questions 1 to 3.

Write your answers in the spaces provided for each question. The allocation of marks is shown in brackets at the end of each part of each question.

1. Refer to the following information.

Potato prices soar

Many small-scale potato farmers have experienced poor growing conditions in October this year, which has led to the price of potatoes increasing from \$5.00 a kilogram to \$9.00 a kilogram.

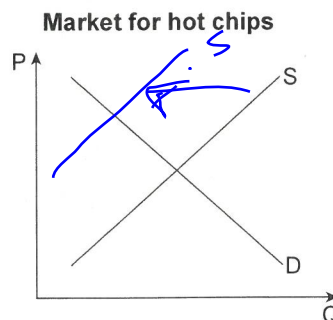
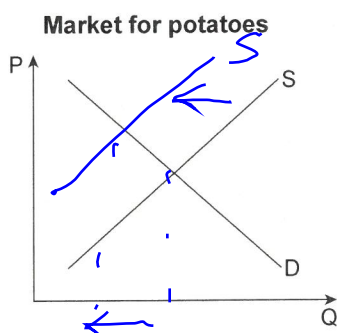
The increase in the price of potatoes is affecting the market for hot chips, the most popular form of food produced from potatoes.

The increased price is also expected to affect markets for complementary goods such as tomato sauce, and substitute goods such as rice.

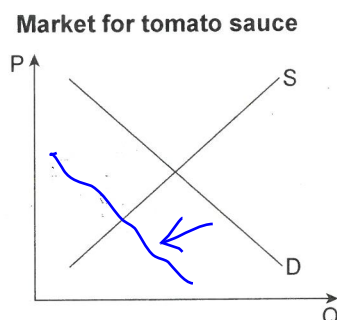
The price of potatoes is not expected to fall from the current price of \$9.00 a kilogram until next season's crop enters the market in February next year. A consumer advocate argued that if the government set a maximum price for potatoes of \$7.00 a kilogram, all consumers would be better off. This claim has been rejected by government officials.

- (a) Show on each diagram how the poor growing conditions for potatoes are likely to affect the market for the following goods.

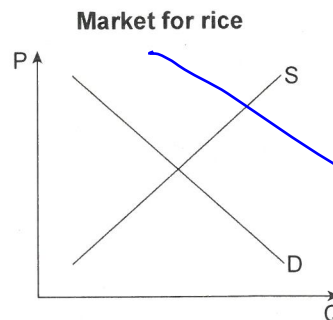
Indicate the effect on price and quantity traded.



resources
up ↑



complementary
to chips



substitute

(4 marks)

- (b) (i) Name the likely market structure for the potato-growing industry.

Perfect Competition (1 mark)

- (ii) Justify your response to part (b)(i).

- agriculture product \Rightarrow homogenous
- easy to enter the market (1 mark)

- (c) Explain the likely change in the price elasticity of supply of potatoes before and after February next year when the new crop becomes available.

 _____ (2 marks)

- (d) (i) State the likely price elasticity of demand for potatoes.

_____ (1 mark)

- (ii) Justify your response to part (d)(i).

 _____ (1 mark)

- (iii) With reference to your response to part (d)(i), explain the likely effect on total revenue of the increase in the price of potatoes from \$5.00 a kilogram to \$9.00 a kilogram.

 _____ (2 marks)

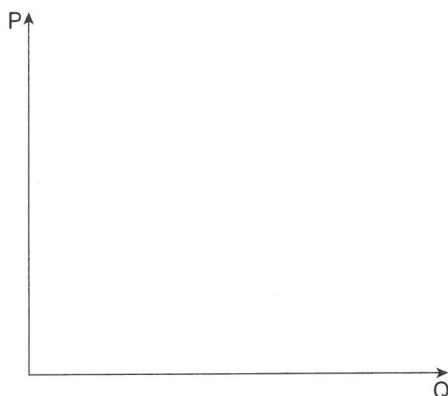
- (e) Explain how using potatoes to make hot chips sold in food outlets will affect gross domestic product (GDP).

Refer to *one* method of measuring GDP in your answer.

 _____ (2 marks)

- (f) Evaluate the claim by the consumer advocate that if the government set a maximum price for potatoes of \$7.00 a kilogram, all consumers would be better off.

Include a diagram to support your response.



(3 marks)

PART A (Questions 1 to 3)

(45 marks)

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1. Refer to the following information.

The avocado market

The demand for Hass avocados¹ has grown dramatically over the last 10 years and consumers no longer consider them a luxury. The growing number of Mexican restaurants — which use a large number of avocados in meals — has also added to demand. These changes have led to many more producers supplying Hass avocados of a similar quality.

Avocados, unlike other fruit such as strawberries, do not ripen until they are picked. This gives individual avocado growers some flexibility about when they pick and sell their avocados. In December 2015 some growers decided to pick more avocados than usual. They pointed out that consumers would pay a lower price for avocados over Christmas and growers would not have to throw out fruit in early January when there was less demand.

In January 2016 the market price of avocados unexpectedly increased from \$2.00 to \$7.00 each. Although some journalists held growers responsible for the large price increase, growers blamed the unexpected bad weather in early January which damaged existing crops.

Avocados are sold by hundreds of fruit and vegetable retailers. In January 2016, one fruit and vegetable retailer decided to sell avocados for \$5.00 each, with the aim of helping consumers by forcing down the market price of avocados.

¹ Hass avocados are the most common variety of avocados grown in Australia.

(a) (i) Name the likely market structure for the avocado-growing industry.

_____ (1 mark)

(ii) Justify your answer to part (a)(i).

_____ (1 mark)

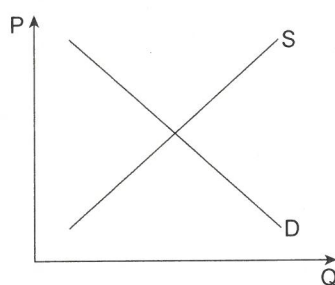
- (b) Describe the likely change in the price elasticity of demand for avocados over the last 10 years.

(2 marks)

- (c) Show on the diagram below the likely effect of picking more avocados in December 2015 on the market for avocados.

Indicate the effect on price and quantity traded.

Market for avocados in December 2015



(1 mark)

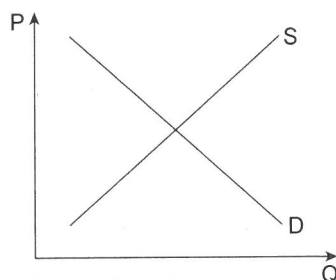
- (d) Outline the likely difference between the price elasticity of supply of avocados and that of another fruit such as strawberries.

(2 marks)

- (e) Show on the diagram below how the increase in the price of avocados in January 2016 is likely to affect the market for meals made with avocados in Mexican restaurants.

Indicate the effect on price and quantity traded.

**Market for Mexican restaurant meals
made with avocados in January 2016**



(1 mark)

- (f) (i) Name *one* type of market failure that could be associated with the avocado market.

_____ (1 mark)

- (ii) Explain why your answer to part (f)(i) is an example of market failure.

_____ (2 marks)

- (g) Assess the claim that one fruit and vegetable retailer selling avocados for \$5.00 would force down the market price of avocados.

_____ (2 marks)

2. Refer to the following information.

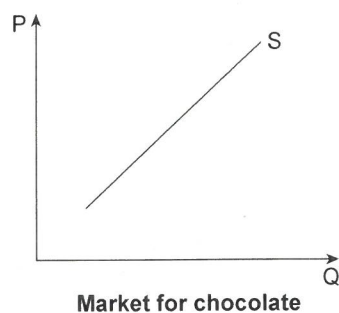
Chocolate Crisis Expected

If chocolate is your favourite treat, enjoy every bite while you can. The world's four major chocolate producers predict an annual shortage of 1 million tonnes of cocoa beans for at least the next 5 years. Cocoa beans are the main ingredient used to make chocolate.

Problems with disease and drought over the last decade have forced many cocoa bean farmers to grow other crops, such as corn, that are more resistant to disease and drought. At the same time, the market for chocolate in Asia — which has only just emerged — is growing at an ever increasing rate.

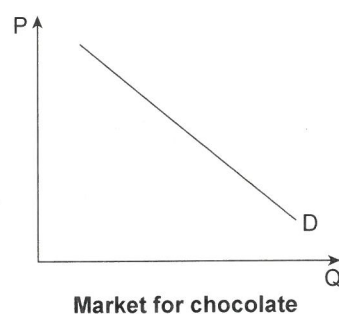
(a) Using information from the article above, show on each diagram the effect of changes in the market conditions for chocolate.

(i) Supply of chocolate:



(1 mark)

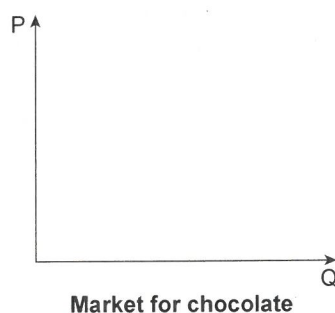
(ii) Demand for chocolate:



(1 mark)

- (b) 'It is difficult to predict the overall effect of changes in market conditions on the equilibrium price and quantity traded of chocolate.'

Evaluate this statement and complete the demand and supply diagram to support your answer.



(3 marks)

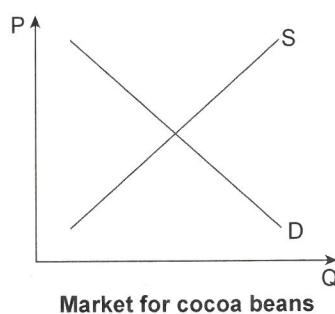
- (c) Refer to the following additional information about the chocolate crisis.

Over the past year, governments have introduced reforms to keep the many small-scale cocoa bean farmers in the industry — including a subsidy for new cocoa bean plantings. While these reforms have led to more cocoa bean plantations, it will be some time before the cocoa beans are ready for use.

- (i) Define the term 'subsidy'.

(1 mark)

- (ii) Show on the diagram below the impact of a subsidy on the market for cocoa beans. Indicate the effect on the equilibrium price and quantity traded.



(1 mark)

(iii) Explain your answer to part (c)(ii).

(1 mark)

(d) (i) State the likely price elasticity of the supply of cocoa beans.

(1 mark)

(ii) Justify your answer to part (d)(i).

(1 mark)

(e) 'The market structures for cocoa bean farmers and chocolate producers are different and each market structure has a different impact on consumers and producers.'

Evaluate this statement.

(5 marks)

PART A (Questions 1 to 4)

(45 marks)

Answer **all** parts of Questions 1 to 4.

Write your answers in the spaces provided for each question. The allocation of marks is shown in brackets at the end of each part of each question.

1. Refer to the following information.

Balancing price and demand

Travellers to Asia are very familiar with 'hawker'¹ food markets that provide a variety of cheap and good food. Increasingly, hawkers have found it more difficult to make a living.

Consider the example of one market with a large number of stallholders, many of whom include chicken rice on their menu. Although costs of ingredients have more than doubled over the past 10 years, the average price of a plate of chicken rice in 2014 is only \$2.50 compared with \$2.00 in 2004. A spokesperson for the hawkers said, 'We have to absorb increased costs. We want to increase prices but we do not know how to do this without negative consequences'.

However, one hawker, Ms Chan, has managed to defy the trend of falling profits. The \$1.50 price for her chicken rice has not changed in the past 10 years and her profits have actually increased. Ms Chan argues that her success is due to bulk buying the ingredients, specialising in one product, and pricing her food significantly lower than the average price. She commented, 'A hawker selling \$1.50 chicken rice could be more profitable than one selling the dish for double the price. You just need to understand the market'.

¹hawker — street food trader

(a) (i) Identify the most likely market structure for the 'hawker' food markets.

_____ (1 mark)

(ii) Justify your answer to part (a)(i).

_____ (1 mark)

(iii) State *one* possible advantage for consumers of the market structure you identified in part (a)(i).

_____ (1 mark)

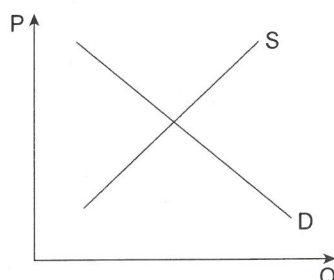
(iv) State *one* possible advantage for producers of the market structure you identified in part (a)(i).

_____ (1 mark)

- (b) Show on the diagram below the effect of Ms Chan's actions of bulk buying ingredients and specialising in one product.

Indicate the effect on price and quantity traded.

Market for Chan's chicken rice



(1 mark)

- (c) (i) State the likely price elasticity of demand for food in hawker food markets.

(1 mark)

- (ii) Justify your answer to part (c)(i).

(1 mark)

- (iii) 'Although selling significantly below the current average price could be profitable for an individual hawker, this would not be the case for the market as a whole.' Evaluate this statement.

(3 marks)

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(45 marks)

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1. Refer to the following information.

The Features of Market Structures

All market structures can be classified according to their specific features. Regardless of the structure of the market, there will always be some type of market failure, such as negative externalities.

(a) Define the term 'barrier to entry'.

(1 mark)

(b) How do barriers to entry vary according to the market structure?

(1 mark)

(c) How does a firm's tendency to develop technological innovation vary according to the market structure?

(1 mark)

(d) Define the term 'price elasticity of demand'.

(1 mark)

(e) Explain how the price elasticity of demand differs when a firm is operating under a perfectly competitive, as opposed to a monopoly, market structure.

(2 marks)

(f) (i) Give an example of a negative externality.

_____ (1 mark)

(ii) In what way is the example you gave in part (f)(i) a type of market failure?

 _____ (1 mark)

(iii) State *one* measure to redress the example of a negative externality you gave in part (f)(i).

_____ (1 mark)

(iv) Outline how this measure would redress this negative externality.

 _____ (1 mark)

PART A (Questions 1 to 3)

(45 marks)

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1. Refer to the following article.

The Dominance of State-owned Firms in China Raises Concerns

Before China started its transition from a planned economy, all firms were owned by the state. State ownership is now declining but in 2012 state-owned firms are still responsible for approximately 45% of China's real gross domestic product (GDP). State-owned firms dominate banking, energy, and infrastructure industries, creating a large number of monopolies.

Some economists argue that the pace of China's future economic growth may slow rapidly unless state-owned firms, which are inefficient and lack entrepreneurship, are made to operate on commercial lines. In addition, moving away from a monopoly towards an oligopoly in some industries may bring more benefits than costs.

Internationally, there are claims that China is protecting its domestic industries. In China, state-owned firms are required to purchase locally wherever possible. They also receive low-cost loans from state-owned banks, and more efficient firms pay a subsidy to less efficient firms. Some countries are pressuring Chinese leaders to sign a trade agreement that will ensure that state-owned firms operate on a commercial basis when involved in international trade.

- (a) Describe *one* economic problem that China may experience during its transition from a planned economy.

_____ (1 mark)

- (b) Which *one* of the following best describes an economic system that uses the market to allocate resources? Tick the appropriate box.

It allows all consumers an equal influence on output

☐

It ensures that resources are allocated on the basis of need

☐

It uses relative prices to determine the composition of output

☐

It ensures that consumers can get the goods they want

☐

(1 mark)

- (c) State *one* method of calculating GDP.

_____ (1 mark)

(d) Define the term 'real gross domestic product'.

(1 mark)

(e) Which *one* of the following changes is most likely to lead to an increase in a country's real GDP? Tick the appropriate box.

- Imports increase

7

- ## Volunteers move into paid work

7

- Inflation increases

7

- The population decreases

7

(1 mark)

(f) Describe *one* impact of a rapid slow-down in Chinese economic growth on the global economy.

_____ (1 mark)

(g) Evaluate the statement from the article on page 3 that 'moving away from a monopoly towards an oligopoly in some industries may bring more benefits than costs.'

(4 marks)

PART A (Questions 1 to 4)

(45 marks)

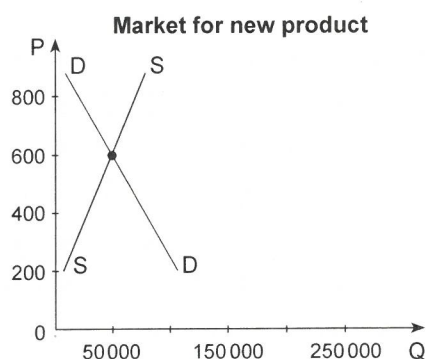
Answer **all** parts of Questions 1 to 4.

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1. Refer to the following table, which shows demand and supply information for a new product.

	Equilibrium Price	Equilibrium Quantity
Year 1	\$600	50 000 per year
Year 2	\$400	250 000 per year

- (a) (i) The diagram below shows demand and supply conditions in Year 1. Indicate on the diagram the demand and supply conditions in Year 2.



(1 mark)

- (ii) Give *two* reasons for the change in market conditions you have shown in part (a)(i).

Reason 1: _____

Reason 2: _____

_____ (2 marks)

- (iii) Describe how the change in market conditions from Year 1 to Year 2 you indicated in part (a)(i) will influence the answer to the question 'for whom are goods and services produced?' in this economy.

_____ (1 mark)

- (b) In economic theory, which *one* of the following types of market economic system is most likely to exhibit innovation and flexibility that lead to the development of new products?
Tick the appropriate box.

Planned economies

☐

Market economies

☐

Economies in transition

☐

Traditional economies

☐

(1 mark)

2. Refer to the following article.

Markets in Practice — The Restaurant Industry

The number of restaurants in cities has grown in recent years as consumer tastes, lifestyles, and incomes change.

A feature of the restaurant industry is that businesses enter and exit frequently. Successful restaurants are able to build customer loyalty, and benefit from customer recommendations. Consumers who wish to eat at some of the more successful restaurants often need to reserve a table weeks in advance. The popularity of some restaurants has allowed their owners to increase prices.

Although the market generally performs well, government intervention can help to fully meet the needs of both consumers and producers and to redress market failure.

(a) (i) Identify the most likely market structure of the restaurant industry.

_____ (1 mark)

(ii) Justify your answer to part (a)(i).

_____ (1 mark)

(iii) State how the market structure you identified in part (a)(i) may meet the needs of:

(1) consumers.

_____ (1 mark)

(2) producers.

_____ (1 mark)

(b) (i) Explain how a restaurant's success in building customer loyalty may affect the price elasticity of demand for a meal at that restaurant.

_____ (2 marks)

(ii) Explain how a knowledge of the price elasticity of demand for a restaurant meal could help restaurant owners to decide whether to increase prices.

_____ (2 marks)

- (c) Which *one* of the following would be the most likely barrier to entering the restaurant industry? Tick the appropriate box.

High level of market concentration

☐

Anti-competitive behaviour of rival businesses

☐

Advertising costs associated with establishing a new business

☐

High research and development costs

☐

(1 mark)

- (d) (i) Identify *one* type of market failure that could be associated with the restaurant industry.

_____ (1 mark)

- (ii) Identify and explain *one* type of government intervention that could redress market failure of the type you identified in part (d)(i).

Type of intervention: _____

Explanation: _____

_____ (2 marks)

5. Refer to the following article.

Price of chocolate eggs up by 17%

The Christian festival of Easter is often celebrated by exchanging chocolate eggs. However, this year the price of chocolate eggs has increased because of an increase in the price of chocolate's main ingredient — cocoa — which is at a 20-year high.

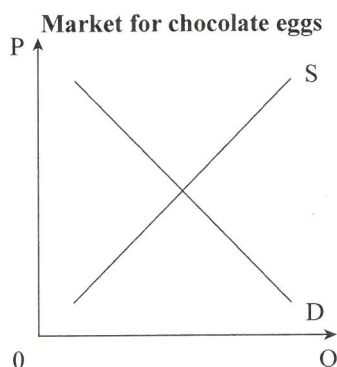
However, it is expected that other economic forces will soon push down cocoa prices.

Despite the price rises, consumers are not expected to reduce their spending on chocolate eggs for Easter as it is an important event for many people.

Consumer groups have suggested that the government set a maximum price for cocoa to help consumers.

- (a) On the diagram below, illustrate the impact of the change in the price of cocoa on the market for chocolate eggs.

Show the effect on the price and quantity traded, and briefly explain your answer.



(2 marks)

- (b) (i) State the likely price elasticity of demand for chocolate eggs at Easter.

_____ (1 mark)

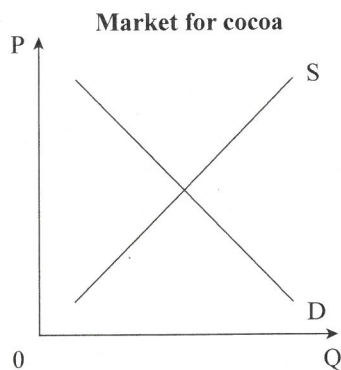
- (ii) State *one* determinant of the price elasticity of demand that could explain your answer to part (b)(i).

_____ (1 mark)

- (iii) State the likely effect of the increase in the price of chocolate eggs on total revenue during the Easter period.

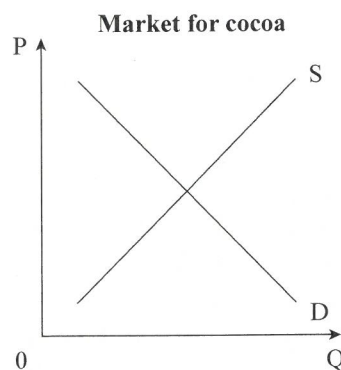
_____ (1 mark)

- (c) (i) Explain *one* supply factor that would bring about a decrease in the price of cocoa.
Illustrate, on the following diagram, the effect of this factor on the market for cocoa.



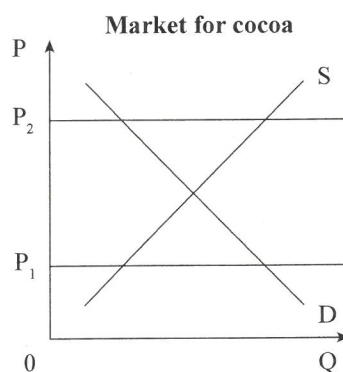
(2 marks)

- (ii) Explain *one* demand factor that would bring about a decrease in the price of cocoa.
Illustrate, on the following diagram, the effect of this factor on the market for cocoa.



(2 marks)

(d) Refer to the following diagram.



Explain the effect on the price and quantity traded if the government sets a maximum price for cocoa of:

(i) P_1

(2 marks)

(ii) P_2

(2 marks)