STAGE 2 ECONOMICS

Assessment task 3

2013

THE MARKET MECHANISM

Topic Test

## General instructions

* Working time – 1 Lesson
* Write using blue or black ink
* Answer all questions
* Write your name at the top

**A few tips**

* Remember to use economic terminology
* Draw and label diagrams correctly

**Student Name: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**

**Knowledge and Understanding Questions**

*Questions in this section will be assessed in terms of the extent to which students demonstrate:*

1. *Knowledge, understanding, and application of economic concepts, principles, models, and skills.*
2. Use a demand and supply diagram to *assist* in explaining the following terms (K = 4 marks, C = 2 marks)
   1. Price Floor
   2. Quota
3. Explain what would happen to *total revenue* in the following situations and why (K = 3 marks)
   1. Price rises on tomato sauce
   2. Price falls on brussels sprouts
   3. Price rises on cans of soft drink
4. Explain whether the following goods will have an elastic or inelastic price ***elasticity of supply***, giving a reason for your answer. (K = 3 marks)
   1. Sand to make glass
   2. Holden cars
   3. Wheat
5. Use the demand and supply diagram below to answer the following questions:

Brussels Sprouts

$7.20

$7.00

$6.80

$6.60

$6.40

$6.20

0 10 20 30 40 (Kg)

* 1. What is the equilibrium price and quantity traded for Brussels Sprouts? (K = 1 mark)
  2. Outline the reasons for the elasticity of Demand for Brussels Sprouts (K = 2 marks)
  3. Outline the reasons for the elastic of supply for Brussels Sprouts (K = 2 marks)

**Analysis and Evaluation Questions**

*Questions in this section will be assessed in terms of the extent to which students demonstrate:*

*1. Analysis and evaluation of economic issues and events (past and current) using economic models and the skills of economic inquiry.*

*4. Evaluation of the way in which economic decisions involve costs and benefits.*

1. Read the following article and answer the questions below

**Short supply, high demand sees avocado prices soar**

Avocado prices are soaring this summer due to short supply and high demand and an industry group says shoppers may face similar pricing for some time to come.

New Zealand Avocado Growers' Association chief executive Jen Scoular said the 2011/2012 crop was the biggest ever, at six million trays. But bumper seasons are usually followed by smaller harvests, she said, and the latest crop had come in at only three million trays.

"This year there's a shortage of supply and an increased demand for avocados, which in a market economy means the price goes up," said Scoular.

She said the industry had been doing a lot of marketing, raising awareness of the fruit's health benefits, which was driving demand from consumers.

According to Statistics New Zealand's Food Price Index, avocado prices rose 86 per cent between January 2012 and the same month this year, contributing to a 5.9 per cent overall price increase for fruit and vegetables during that period.

Avocados were selling for $2.49 each at Countdown's Newmarket store at the weekend and $2.99 at the New World Metro store on Queen St on Tuesday.

Asked whether consumers could expect cheaper avocados next summer, Scoular said the association's strategy was to position the fruit as a high value product, rather than a commodity.

"Demand is certainly outstripping supply at the moment," Avocados Australia chief executive John Tyas told the *Australian Financial Review* last week. "During the summer, only the southern states are the major suppliers of avocados and they produce a bit less."

1. Using the diagram below, demonstrate and explain the impact on Supply and Demand outlined in the article. (A&E1 = 2 marks, C = 1 mark)
2. Analyse and evaluate the impact that advertising is having on the elasticity of Demand for Avocados. Use a diagram in your response. (A&E1 = 4 marks, C= 1)
3. What would be the likely result on total revenue of avocado growers? Give reasons.

(A&E1 = 2 marks)

1. Assume that the government put a price ceiling on the price of avocado’s because they are found to be a necessity in everyone’s diet. What would be the impact of this decision on producers and consumers? **Include a diagram in your response.** (A&E1 = 2, A&E4 = 2, C=1)
2. Read the following article and answer the questions

**Fruit and vegetable prices to skyrocket**

Rain has wiped $500 million from farmers' yields in the eastern states.

A jump in fruit and vegetable prices would not translate to a shortage of fresh food in SA as growers prepare to send their wares to Australia's eastern states, according to an industry group.

Torrential rain and floods across NSW, Victoria and Queensland have wreaked havoc on farmers' crops with NSW Premier Kristina Keneally estimating $500 million had been wiped from the value of yields.

A spokesman for Farmers SA said that farmers had already begun to ramp up their yields in preparation for the Christmas season.

"Our growers would supply South Australia first and then the eastern states but I still think the price will go up here because of the shortage in the eastern states," Mr Turley said.

"Stocks of fresh vegetables will be on the shelves through the Christmas season."

The spokesman said the prices of potatoes would not rise but most other vegetables would skyrocket. He stopped short of saying prices would double, instead predicting the rise would be significant.

"Vegetables like lettuce and celery will be short in the eastern states, tomatoes will (also) be short," he said.

While certain parts of the eastern states had been put out of action because of weather in the past, it was virtually unheard of that all three states were under water, the spokesman said.

1. On a diagram, outline the effects of a shortage on the market (A&E1 = 1, C = 1 mark)
2. Why, if prices rise could farmers not increase their supply? (A&E1 = 2 marks)
3. Explain the effect on total revenue for SA growers compared with the total revenue for growers in the eastern states. Use a diagram to support your response. (A&E 4 = 4 marks, C = 2 marks)

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| **Learning Requirements** | **Assessment Design Criteria** |
| 1. know, understand, communicate, and apply economic concepts, principles, models, and skills  2. explain the role of economic systems in dealing with the economic problem of scarcity  3. evaluate the effects of interdependence on individuals, business, and governments locally, nationally, and globally  4. evaluate and explain the way in which economic decisions involve costs and benefits  5. critically analyse and evaluate economic issues and events (past and current) using economic models and the skills of economic inquiry  6. critically analyse and evaluate the impact of economic change locally, nationally, and globally. | Knowledge and Understanding  The specific features are as follows:  KU1 Knowledge, understanding, and application of economic concepts, principles, models, and skills.  KU2 Understanding of the role of economic systems in dealing with the economic problem of scarcity.  Analysis and Evaluation  The specific features are as follows:  AE1 Analysis and evaluation of economic issues and events (past and current) using economic models and the skills of economic inquiry.  AE2 Evaluation of the effects of interdependence on individuals, business, and government, locally, nationally, and globally.  AE3 Analysis and evaluation of the impact of economic change locally, nationally, and globally.  AE4 Evaluation of the way in which economic decisions involve costs and benefits.  Communication  The specific features are as follows:  C1 Communication of economic principles, models, and concepts.  C2 Use of economic terminology. |

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| **Assessment Criteria** | | **Requirements** | | **Grade** | |
| Knowledge and Understanding  KU1 Knowledge, understanding, and application of economic concepts, principles, models, and skills. | | * Knowledge of factors of Demand and Supply * Knowledge of Demand and supply elasticity * Impact of govt intervention in markets * Effective explanation and application of models | | A, B, C, D, E  **/15** | |
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| Analysis and Evaluation  AE1 Analysis and evaluation of economic issues and events (past and current) using economic models and the skills of economic inquiry.  AE4 Evaluation of the way in which economic decisions involve costs and benefits. | | * Evaluation of the impacts of decisions on producers and consumers * Using economic models to explain situations | | A, B, C, D, E  **/19** | |
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| Communication  C1 Communication of economic principles, models, and concepts. | | * Use of economic models to convey economic concepts | | A, B, C, D, E  **/8** | |
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|  | **On Balance Grade** | | **/42** | | |