STAGE 2 ECONOMICS

Assessment task 3

2014

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

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

1. Explain whether the following goods will have an elastic or inelastic price ***elasticity of supply***, giving a reason for your answer. (3 marks)
   1. Sand to make glass
   2. Holden cars
   3. Wheat
2. Refer to the following table which shows supply and demand for a new product

|  |  |  |
| --- | --- | --- |
|  | Equilibrium price | Equilibrium Quantity |
| Year 1 | $600 | 50,000 |
| Year 2 | $400 | 250,000 |

The diagram below shows demand and supply conditions for year 1. Indicate on the diagram the demand and supply conditions for year 2. (1 mark)

800

600

400

200

50,000 150,000 200,000

1. Give 2 reasons for the change in market conditions you described in the diagram (2 marks)

Reason 1:

Reason 2:

1. Read the following article and answer the questions

**The Rising Price of Petrol Threatens to Reduce Global Economic Growth**

The fast-rising price of petrol is threatening to reduce global economic growth, and increased tensions in some oil-producing countries have raised the threat of a major disruption in global oil supplies. Producers of goods and services face higher production and distribution costs. A higher petrol price forces consumers to change their expenditure on other items, such as restaurant meals, hairdressing, and family holidays. The price elasticity of both supply and demand for petrol is likely to be relatively inelastic.

1. Define the term ‘elasticity of supply’ (1 mark)
2. State one reason why the elasticity of supply for petrol is likely to be inelastic (1 mark)
3. Using the information in the article above, show on each diagram the effect of the change in market conditions for petrol on the price and quantity traded in the following markets:

(2 marks)

Petrol Holidays

1. What would be the reason for the price elasticity of Demand being relatively inelastic?

(1 mark)

1. Read the following article and answer the questions below.

**Smokers can expect to have thinner wallets as the excise tax on cigarettes is expected to increase by 59 cents next week according to the Adelaide Advertiser.**

SA Smokers Association has accurately predicted the increase in cigarettes excise taxes recently, and believes that by next week the additional rise will be in place.

“The increase in excise serves several purposes,” says Anti-smoking campaigner, Dr Olivier Lucas. “It will deter young people from taking up smoking, benefit health and increase government revenues.”

He says that increasing excise tax is the single most effective way for government to reduce premature death and disease caused by tobacco. Cigarettes kill more than 10,000 Australians every year.

Professor Tiffany Anne Brooks said that as head of the Smokers Association, that she would challenge the decision as it would increase the black economy for cigarettes. Dr Olivier Lucas however says that any claim made in this regard by Professor Brooks would be baseless.

1. Use a demand and supply diagram to *assist* in explaining the effect of an increase in exercise tax on the cigarette market. (2 marks)
2. Explain what is meant by the term ‘black economy’ (1 mark)
3. Cigarettes are said to have relatively inelastic demand , what is the likely reason for this? (1 mark)
4. Read the following article and answer the questions below

**Over supply, Low demand sees peach prices flop**

Peach prices have slumped this summer due to increased supply and lower than normal demand and an industry group says producers may face similar pricing for some time to come.

The SA Peach Growers Association chief executive Elizabeth ‘Mad dog’ Hanns said the 2013/2014 crop was the biggest ever, at six million trays. She went on to say that bumper seasons are usually followed by smaller harvests, she said, and next years crop is estimated to produce only three million trays.

"This year there's an increase of supply and a decrease in demand for peaches, which in a market economy means the price goes down," said Mad Dog.

She said the industry had been doing a lot of marketing, raising awareness of the fruit's health benefits, which she was hoping would increase demand

According to Statistics SA’s Food Price Index, peach prices fell 86 per cent from last years prices, contributing to a decrease of 5.9% overall decrease in price for fruit and vegetables during that period.

Peaches were selling for $2.49/Kg at the Mt Barker Farmers Market and $2.75 at the Adelaide Central Market on Tuesday

"Supply is certainly outstripping demand at the moment," Peach Australia chief executive Jonathan Caddox told the *Australian Financial Review* last week. "During the summer, usually only the southern states are the major suppliers of peaches, however this year most other states have chipped in resulting in far more supply than usual.”

1. Using the diagram below, demonstrate and explain the impact on Supply and Demand outlined in the article. (3 marks)
2. Analyse and evaluate the impact that advertising is anticipated to have on the ***elasticity of Demand*** for Peaches. Use a diagram in your response. (4 marks)
3. What would be the likely result on total revenue of peach growers after this campaign? Give reasons. (2 marks)

1. Assume that the government put a price floor on the price of peaches because the peach growing industry is so large in Australia. What would be the impact of this decision on producers, consumers and the government? **Include a diagram in your response.** (8 marks)

Consumers

Producers

Government

|  |  |
| --- | --- |
| **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. |