STAGE 2 ECONOMICS

Assessment task 3

2016

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: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**

**Question 1.**

Refer to the following article and answer the questions.

**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. (AE 1 = 1 mark each, C1 – 1 mark each)

(i) Supply of chocolate:

P

S

Qty

**Market for chocolate**

(ii) Demand for chocolate:

P

D

Qty

**Market for chocolate**

(b) Evaluate the following statement and complete a Demand & Supply diagram to support your answer.

*It is difficult to predict the overall effect of changes in market conditions on the equilibrium price and quantity traded of chocolate*

P

Q

(AE 1 = 3 marks, C1 – 1 mark)

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

1. Define the term ‘subsidy’

*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.*

(K1 = 1 mark)

1. 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. (AE1 – 1 mark)

P

S

D

**Market for Cocoa Beans**

Qty

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

(K1 = 1 mark)

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

(AE1 = 1 mark)

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

(KU1 - 1 mark)

Question 2.

Refer to the following information.

(a) Show on the diagram below the effect of Ms Chan’s actions of bulk buying ingredients and specialising in one product. (AE1 – 1 mark, C1 = 1 mark)

Travellers to Asia are very familiar with ‘hawker’ food markets that provide a variety of cheap and good ‘street food’ at their night-time markets. 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 and rice in 2016 is only $2.50 compared with $2.00 in 2006. 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’.

Indicate the effect on price and quantity traded.

S

D

P

Qty

**Market for Chan’s Chicken & Rice**

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

(KU1 - 1 mark)

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

(KU1 - 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.

(AE4 - 3 marks)

**Question 3.**

Use a demand and supply diagram to *assist* in explaining the following terms (KU1 = 4 marks, C1 = 4 marks)

* 1. Tax
  2. Quota

**Question 4.**

Explain what would happen to *total revenue* in the following situations and why (KU1 = 3 marks)

1. Price rises on the Adelaide Advertiser
2. Price falls on potatoes
3. Price rises on lounge suites

1. Use the demand and supply diagram below to answer the following questions:

Chocolate Easter Eggs

$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 Chocolate Easter Eggs? (KU1 = 1 mark)
  2. Outline the reasons for the elasticity of Demand for Chocolate Easter Eggs (KU1 = 2 marks)
  3. Outline the reasons for the elastic of supply for Chocolate Easter Eggs (KU1 = 2 marks)

**Question 5.**

Read the following article and answer the questions below

**Absolutely LOVING these petrol prices!!**

Petrol prices are plummeting at the moment thanks to a huge increase in supply from the middle east and a dropping $A. These low prices are expected to continue well into the middle of the year.

South Australian Petrol Stations Association Chief executive Alex Poopes said that this is the cheapest we have seen petrol since the invasion of Iraq by the Americans in the early 2000’s. “While it’s great for motorists, spare a thought for petrol station owners. They’re making less money now.”

“In addition to the lowering petrol prices, we have also recently seen an increase in the number of new cars entering our roads”, Minister for carbon emissions, Ms Cora Edgebrush said. Mr George Bailye (not the cricketer), said his car business was booming, “Selling more cars, making more money, I just hope the producers can keep up!”.

1. Using the diagram below, demonstrate and explain the impact on Supply and Demand for Petrol.

(AE1 - 3 marks, C1 – 1 mark)

1. What would be the likely result on total revenue of petrol stations? Give reasons.

(AE4 - 2 marks)

1. Assume that the government put a price floor on the price of petrol because they are finding that petrol stations are struggling to survive. What would be the impact of this decision on producers and consumers? **Include a diagram in your response.**

(AE4 - 5 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  **/17** | |
| |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | Knowledge and Understanding Overall Grade | A+ | A | A- | B+ | B | B- | C+ | C | C- | D+ | D | D- | E+ | E | E- | | | | | | |
| 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  **/11**  **/10** | |
| |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | Analysis and Evaluation Overall Grade | A+ | A | A- | B+ | B | B- | C+ | C | C- | D+ | D | D- | E+ | E | E- | | | | | |
| Communication  C1 Communication of economic principles, models, and concepts. | | * Use of economic models to convey economic concepts | | A, B, C, D, E  **/9** | |
| |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | Communication Overall Grade | A+ | A | A- | B+ | B | B- | C+ | C | C- | D+ | D | D- | E+ | E | E- | | | | | | |
|  | **On Balance Grade** | | **/42** | | |