**ECONOMICS Unit 1**

**Written examination 2019**

**Reading time: 15 minutes**

**Writing time: 90 minutes (1 hour and 30 minutes)**

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

**QUESTION AND ANSWER BOOK**

|  |  |  |  |
| --- | --- | --- | --- |
| ***Section*** | ***Number of Questions*** | ***Number of questions to be answered*** | ***Number of marks*** |
| A | 15 | 15 |  15 |
| B | 6 | 6 |  60 |
|  | **Total: 75** |

**Structure of book**

**SOLUTIONS**

**Section A: Multiple Choice Questions**

**Instructions for Section A**

Answer **all** questions in **pencil** on the answer sheet provided for multiple choice questions.

Choose the response that is **correct** or the **best answers** the question.

**Question 1**

Economics is primarily concerned with the question of how

**A.** Unlimited human needs and wants can be satisfied through the use of limited resources

**B.** Unlimited factors of production can be best allocated for different uses

**C.** Limited human needs and wants can be satisfied through the use of unlimited resources

**D.** All of the above

**Question 2**

If a nation improves efficiency via the introduction of new technology, then the change may be illustrated graphically on a production possibilities curve by

**A.** a movement along the production possibilities curve

**B.** a shift outwards of the production possibilities curve

**C.** A shift inwards of the production possibilities curve

**D.** a shift towards the production possibilities curve

**Question 3**

Which of the following is not an example of a factor of production?

**A.** Money

**B.** Labour

**C.** Natural resources

**D.** Capital

**Question 4**

Which of the following statements about the circular flow model is **incorrect?**

**A.** An increase in factors of production should lead to a decrease cost of production to firms.

**B.** Higher levels of household disposable income should lead to an increase in economic activity.

**C.** Increased tax rates imposed by the government should lead to firms decreasing their demand for factors of production which should lead to a decrease in goods and services produced, leading to a decrease in economic activity.

**D.** An increase in economic activity can result in a decrease in non-material living standards due to increased work hours which may result in increased stress and a decrease in work-life balance.

**Question 5**

Which of the following markets is least likely to be the one involving the use of price discrimination?

**A.** Cinemas

**B.** Taxi services

**C.** Airlines

**D.** Amusement parks

**Question 6**

Which of the following is not considered to be a traditional view of consumer behaviour?

**A.** Consumers seek to maximise their happiness and satisfaction with every purchase made

**B.** Consumers research and compare the market prior to spending larger sums of money

**C.** Consumers seek to purchase items that satisfy wants as a first priority

**D.** Consumers use income to satisfy essential requirements prior to spending money on non-essential items.

**Question 7**

Which of the following provides the best definition of marginal utility?

**A.** The increased cost a consumer is prepared to pay to purchase a good or service

**B.** The increased satisfaction gained through consumption

**C.** The increased cost a consumer refuses to pay to have access to extra goods or services

**D.** The increased satisfaction an individual gains by consuming an additional unit of a product or service at a particular point in time

**Question 8**

Which of the following provides the best definition of multi-branding?

**A.** When a company sets its prices at a sufficiently low level with the purpose of damaging or forcing a competitor to exit the market

**B.** Is a strategy utilised by a core business marketing their products under separate and distinct brands.

**C.** Involves a business charging consumers different prices for the same product.

**D.** The increased satisfaction an individual gains by consuming an additional unit of a product or service at a particular point in time

**Question 9**

Which of the following factors is **not** a demand factor?

**A.** the price of close substitutes

**B.** disposable income

**C.** labour costs

**D.** consumer confidence

**Question 10**

Which of the following is **not** a feature of a perfectly competitive market?

**A.** Low barriers to entry and exit

**B.** Heterogenous goods and services

**C.** Suppliers are price takers

**D.** Resources are efficiently allocated and there is no loss of social welfare

**Question 11**

Which of the following factors is **not** likely to be a factor that shifts the supply curve to the right?

**A.** an increase in the price of a substitute

**B.** an increase in productivity at the firm producing the good

**C.** a reduction in labour costs at the firm producing the good

**D.**  favourable climatic conditions that lead to improved growing conditions

**Question 12**

The difference between a perfectly competitive market structure and a monopolistically competitive market structure is

**A.** Perfectly competitive market structures have heterogeneous goods / services while monopolistically competitive markets have homogenous goods / services.

**B.** Perfectly competitive market structures have homogenous goods / services while monopolistically competitive markets have heterogeneous goods / services.

**C.** Perfectly competitive market structures have low barriers to entry and exit while monopolistically competitive markets have high barriers to entry and exit

**D.** Perfectly competitive market structures have higher prices than monopolistically competitive markets

**Question 13**

An increase in the price of dairy milk is likely to have what effect on the market for almond milk?

**A.** Shift the supply curve to the right leading to a decrease in equilibrium price and increase in equilibrium quantity

**B.** Shift the demand curve to the right leading to an increase in equilibrium price and increase in equilibrium quantity

**C.** Shift the supply curve to the left leading to an increase in equilibrium price and decrease in equilibrium quantity

**D.** Shift the demand curve to the left leading to a decrease in equilibrium price and decrease in equilibrium quantity

**Question 14**Which of the following is **not** a feature of an oligopoly market?

**A.** High barriers to entry

**B.** Higher prices and lower quantity traded

**C.** Achieves technical efficiency due to high competition

**D.** Goods can be homogenous

**Question 15**

A fall in interest rates should have what effect on the new car market?

**A.** Demand curve shifts left causing the equilibrium quantity to fall and equilibrium price to fall.

**B.** Demand curve shifts right causing the equilibrium quantity to rise and equilibrium price to rise.

**C.** Supply curve shifts to the left causing the equilibrium quantity to fall and equilibrium price to rise.

**D.** Supply curve shifts to the right causing the equilibrium quantity to rise and equilibrium price to fall.

**Question 1 (9 marks)**

Refer to the output combinations for Hoog Country which produces two goods: Pens and Rulers.

**Table 1: Hoog country production possibilities.**

|  |  |  |
| --- | --- | --- |
| **Production combination**  | **Production of pens** **(packets per year 000’s)** | **Production of rulers** **(packets per year 000’s)**  |
| A | 500 | 0 |
| B | 450 | 50 |
| C | 350 | 175 |
| D | 200 | 250 |
| E | 100 | 325 |
| F | 0 | 400 |

a. Construct the production possibilities curve for Hoog economy. Make sure you label all points correctly.

(4 marks)

**Marking criteria**

1 mark for correct labelling of X and Y axis

1 mark for labelling each output combination

2 marks for plotting output combinations

**b.** Define the term ‘scarcity’.

(1 mark)

**Marking criteria**

*1 mark for definition*

**c.** Explain the opportunity cost of Hoog country moving from output combination C to output combination D.

(2 marks)

**Marking criteria**

*1 mark for correct opportunity cost*

*1 mark for demonstrating by using points within diagram*

**d.** Distinguish between allocative and technical efficiency

(2 marks)

**Marking criteria**

1 mark for definitions

1 mark for sign posting a difference

**Question 2 (21 marks)**

**a.** Outline two assumptions of a perfectly competitive market system and describe the effect living standards.

(3 marks)

**Marking criteria**

1 mark for definition of competitive market

1 mark for outlining each correct feature

**b.** Describe the law of supply.

(2 marks)

**Marking criteria**

1 mark for higher price for higher output

1 mark for greater profit opportunities

**c.** Distinguish between a movement along the demand curve and a shirt of the demand curve.

(4 marks)



**Marking criteria**

1 mark for shifting demand curve

1 mark for non price determinant of demand

1 mark for shifting supply curve

1 mark for movement along demand due to price change caused by supply curve shift

Analyse the demand and supply schedule for the market of tomatoes

| Price ($) | Demand (000’s) | Supply (000’s) |
| --- | --- | --- |
| 8 | 20 | 120 |
| 6 | 50 | 100 |
| 4 | 80 | 80 |
| 2 | 110 | 40 |
| 1 | 140 | 10 |

**c.** Construct a suitably labelled demand and supply diagram for the market of tomatoes.

(4 marks)



**Marking criteria**

1 mark for labelling X and Y axis properly and label market diagram

1 mark for constructing demand and supply

1 mark for determining equilibrium price

1 mark for determining equilibrium quantity traded

**d.** Define the term ‘equilibrium’ using the market diagram to support your answer.

(2 marks)

**Marking criteria**

1 mark for definition of equilibrium

1 mark for referring to diagram – equilibrium price and quantity

**e.** Outline one demand-side factor that would be expected to shift the demand curve for tomatoes to the right.

(2 marks)

**Marking criteria**

1 mark for correct demand factor

1 mark for outlining how it will cause a change in demand at each and very price causing D to shift right from D to D1

**f.** Show the change in demand on the supply and demand diagram.

(1 mark)

**g.** Explain how this change will cause the equilibrium price and quantity to adjust

(3 marks)

**Marking criteria**

1 mark for misallocation at initial equilibrium price

1 mark for price signal – consumers bid up / down price

1 mark for incentive function – change in price incentivises consumers / producers to reallocate – contraction / expansion resulting in new equilibrium P and Q

**Question 3 (9 marks)**

**a.** Distinguish between positive and normative economics

(2 marks)

**Marking criteria**

1 mark for definitions

1 mark for sign posting a difference

**b.** Define one irrational behaviour exhibited in bounded rationality and explain why this causes economic decisions that do not maximise the consumers utility (satisfaction).

(3 marks)

**Marking criteria**

1 mark: Correct identification and definition of irrational behaviour

1 mark: Relevant explanation as to why the behaviour leads to poor decisions

1 mark: Relevant example given

**c.** Describe one positive incentive that will affect workers and explain how they will respond to this.

(2 marks)

**Marking criteria**

1 mark: Correctly identify a positive incentive affecting workers

1 mark: Gives a realistic result of the positive incentive

**d.** Explain one benefit and one cost that the change in technology (creation of a share economy) has had on consumers.

(2 marks)

**Marking criteria**

1 mark: Correct benefit identified

1 mark: Correct cost identified

**Question 4 (13 marks)**

**a.** Explain the traditional economic viewpoint of business behaviour.

(2 Marks)

**Marking criteria:**

*1 mark for referring to businesses seek to maximise profit*

*1 mark for referring to lowering expenses or increasing revenue for the sole purpose to maximise shareholder wealth.*

The company Coco-Cola and Yakut are both having their annual reports being disclosed to the public and both want to decrease their carbon footprint while still maximising profit and minimising their costs.

**b.** Explain the effect on consumer demand for Coco-Cola or Yakult.

(2 mark)

**Marking criteria:**

*Referring to Consumer demand would likely increase due to the feeling of supporting the environment more when buying coco-cola products over other competitors such as Pepsi*

**c.** Discuss a short term positive and negative and a long term positive and negative on the profit of Coca Cola or Yakult as a result of the change in their business goals in incorporate triple bottom line reporting.

(6 marks)

**Marking criteria**

1 mark for definition of TBL

1 mark for describing change in business goal from profit toward supporting the community and environment – use data to validate claim

1 mark for short term positive

1 mark for short term negative

1 mark for long term positive

1 mark for long term negative

**d.** Explain, referring to an example, one business strategy that can be used to maximise profitability of the business.

(3 marks)

**Marking criteria**

1 mark for identifying strategy such as multi branding

1 mark for description

1 mark for explaining how it can maximize profit

**Question 5 (8 marks)**

**a.** Distinguish between current and future tradeoffs and state examples that would impact households.

(2 marks)

**Marking criteria**

1 mark for describing current and future trade off with example

1 mark for sign posting difference

**b.** Identify and explain a current tradeoff for a firm, and a future tradeoff for government.

(2 marks)

**Marking criteria**

1 mark for identifying and describing a short term firm trade off

1 mark for identifying and describing a long term government trade off

**c.** Referring to the two sector income model, explain the effect on GDP growth if firms increase their demand for factors of production and how will it influence material or non-material living standards.

(4 marks)

**Marking criteria**

1 mark for describing the two sector income model

1 mark for increase factors of production lead to higher income

1 mark for explaining how higher incomes to households result in higher demand for goods / services

1 mark for higher incomes leads to greater access to goods / services OR improved incomes leads to less social exclusion / improved physical health due to access to better food, higher literacy rates due to access to more quality education = improved quality of life