

# Economics

# SAC 1.1 UNIT 3 OUTCOME 1

**You will have 90 minutes to complete this task plus 10 minutes reading time**

**Teacher: Mr. Daniel Charles**

**Multiple choice:** 5 marks

**Short answer:** 55 marks

**Allowed materials for this task include:**

* Pens, pencils, rulers, erasers, highlighters

Name \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

***Note:*** *The grade or score for this task is only part of the internal assessment for this Unit. Your* ***total*** *School-assessed Coursework score may change as a result of statistical moderation by VCAA.*

**Grade/Score: \_\_\_\_\_\_ Satisfactory Completion? S/N: \_\_\_\_\_\_**

**(Provisional)**

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| --- |
| **VCE ECONOMICS****SCHOOL-ASSESSED COURSEWORK** |
| **Performance Descriptors** |
|  |
| ***Unit 3******Outcome 1*** ***Explain how markets operate to allocate resources*** | **DESCRIPTOR: typical performance in each range** |
| **Very low** | **Low** | **Medium** | **High** | **Very high** |
| Very limited reference to relevant theory, demonstrating a limited understanding of the operation of the market forces of demand and supply in the allocation of resources. | Limited reference to relevant theory, demonstrating some understanding of the operation of the market forces of demand and supply in the allocation of resources. | Selection of mostly relevant theory to demonstrate a satisfactory understanding of the operation of the market forces of demand and supply in the allocation of resources. | Selection of relevant theory to demonstrate a generally thorough understanding of the operation of the market forces of demand and supply in the allocation of resources. | Selection of relevant theory to demonstrate a sophisticated understanding of the operation of the market forces of demand and supply in the allocation of resources. |
| Construction and interpretation of demand and supply diagrams demonstrates a limited knowledge of how the market forces of demand and supply interact to determine equilibrium prices and quantities traded. | Construction and interpretation of demand and supply diagrams demonstrates an elementary understanding of the how the market forces of demand and supply interact to determine equilibrium prices and quantities traded. | Construction and interpretation of demand and supply diagrams demonstrates a satisfactory knowledge of how the market forces of demand and supply determine equilibrium prices and quantities traded. | Construction and interpretation of demand and supply diagrams demonstrates a generally thorough understanding of how to the market forces of demand and supply determine equilibrium prices and quantities traded. | Construction and interpretation of demand and supply diagrams demonstrates a complex understanding of how the market forces of demand and supply determine equilibrium prices and quantities traded. |
| Limited use and application of economics terms, concepts, theories and data in the analysis and discussion. Little use of relevant data and evidence to support explanation and discussion. | Some accurate application of knowledge and use of specialist economic terms, concepts and theories. Some reference to relevant data and evidence but not always applied appropriately. | Satisfactory selection, use and application ofeconomics terms, concepts, theories, data and evidence to support the explanation and discussion. | Accurate definition, use and application ofeconomics terms, concepts and theories. Sound use of relevant data and evidence to support the explanation and discussion. | Confident and accurate definition, use and application ofeconomics terms, concepts and theories. Sophisticated use of relevant data and evidence to support the explanation and discussion. |

**Section A – Multiple Choice Questions**

**Question 1**

Economics is primarily concerned with the question of how

1. Unlimited human needs and wants can be satisfied through the use of limited resources
2. Unlimited factors of production can be best allocated for different uses
3. Limited human needs and wants can be satisfied through the use of unlimited resources
4. All of the above

**Question 2**

The effect on the market for product X from a rise in the price of a complementary product Y will

1. Shift the demand curve right and increase the equilibrium price
2. Shift the demand curve left and decrease the equilibrium price
3. Shift the supply curve left and increase the equilibrium price
4. Shift the supply curve right and decrease the equilibrium price

**Question 3**

If a product became less popular, while at the same time increased costs of production caused the supply of the product to decrease, it can be concluded that, for this product, the

1. Equilibrium price might rise or fall
2. Equilibrium quantity might rise or fall
3. Equilibrium price and equilibrium quantity would rise
4. Equilibrium price and equilibrium quantity would fall

**Question 4**

|  |  |  |
| --- | --- | --- |
|  | **2017** | **2018** |
| Price of milk (per litre) | $3 | $3 |
| Price of cigarettes (per packet) | $15 | $20 |

In the example provided in the table above, the relative price of milk between 2017 and 2018

1. Cannot be determined
2. Remain unchanged
3. Increased
4. Decreased

**Question 5**

Which of the following might cause an expansion in the supply of mangoes along the supply curve?

1. A rise in interest rates
2. A rise in income taxes
3. An increase in the price of mangoes
4. A cyclone destroys 95% of mango production

Total: 5 marks

**Section B – Short Answer Questions**

**Question 1 (6 marks)**

1. Explain two characteristics of a perfectly competitive market.

2 marks

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1. Explain how an economy’s scarce resources are allocated in a perfectly competitive market. In your answer, refer to relative prices and use an example to illustrate your understanding.

4 marks

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**Question 2 (3 marks)**

*There could be a situation in the economy where demand for houses outstrips supply, creating a* ***shortage*** *of houses. Economists argue that any shortage in a market is temporary.*

1. Based on this, explain how you would expect the market for housing to change in the next couple of years. In your answer, refer to the diagram below.

3 marks



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**Question 3 (13 marks)**

Consider the following data for the frozen yogurt market in Melbourne.



1. Referring to the data for frozen yogurt, construct a fully labelled demand supply diagram to show how the equilibrium price and quantity traded are determined.

4 marks



1. Define what is meant by ‘consumer confidence’ and explain how an increase in consumer confidence would increase the demand for frozen yogurt.

2 marks

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1. Draw the change in demand, caused by change in consumer confidence, on the diagram constructed in **part a.**

1 mark

1. Describe how the market for frozen yogurt will move from the initial equilibrium to the new equilibrium following the change in demand. In your answer, refer to the diagram constructed in **part a.**

4 marks

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1. Explain one factor that might cause a decrease in the equilibrium price of frozen yogurt and result in a movement along the demand curve.

2 marks

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**Question 4 (9 marks)**

1. Explain what is meant by ‘elasticity’ in economics

2 marks

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1. Outline two strategies producers of Frozen Yogurt could implement to increase its price elasticity of supply (PES)

4 marks

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1. From the perspective of a profit maximising producer, analyse the significance of a product’s price elasticity of demand (PED) when trying to determine the best price to set for your good or service.

4 marks

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**Question 5 (7 marks)**

1. Describe the positive effect that competitive markets have on

i. Technical (productive) efficiency

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ii. Allocative efficiency

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2 + 2 = 4 marks

1. Explain how the existence of common access resources can lead to a decrease in intertemporal efficiency.

3 marks

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**Question 6 (14 marks)**

1. Explain what is meant by ‘public goods’ and outline why there will be an under-allocation of resources towards the production of public goods in a perfectly competitive market.

3 marks

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1. Using an example to illustrate your response, outline why positive externalities are considered to be a type of market failure.

3 marks

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1. Identify and explain one type of government intervention that is used to correct the market failure of positive externalities.

3 marks

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d. ***In Australia, excise taxes (a type of indirect tax) are used to decrease the consumption of tobacco, alcohol and petrol, as the excessive consumption of these goods is deemed undesirable to society.***

Using the market for one of the goods listed above as an example:

1. Draw a fully labelled demand and supply diagram below that shows the impact that an excise tax has on the equilibrium price and quantity for that market. (2 marks)
2. Referencing the diagram, explain how excise taxes will aim to decrease the consumption of these goods. (2 marks)



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**Question 7 (3 marks)**

1. Explain one contemporary example of government intervention in markets that has unintentionally led to a decrease in the efficiency of resource allocation.

3 marks

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**Extra Writing Space**

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