

3

91399



NEW ZEALAND QUALIFICATIONS AUTHORITY
MANA TOHU MĀTAURANGA O AOTEAROA

QUALIFY FOR THE FUTURE WORLD
KIA NOHO TAKATŪ KI TŌ ĀMUA AO!

SUPERVISOR'S USE ONLY

Tick this box if
there is no writing
in this booklet

Level 3 Economics 2020

91399 Demonstrate understanding of the efficiency of market equilibrium

2.00 p.m. Friday 4 December 2020
Credits: Four

Achievement	Achievement with Merit	Achievement with Excellence
Demonstrate understanding of the efficiency of market equilibrium.	Demonstrate in-depth understanding of the efficiency of market equilibrium.	Demonstrate comprehensive understanding of the efficiency of market equilibrium.

Check that the National Student Number (NSN) on your admission slip is the same as the number at the top of this page.

You should attempt ALL the questions in this booklet.

If you need more room for any answer, use the extra space provided at the back of this booklet.

Check that this booklet has pages 2–11 in the correct order and that none of these pages is blank.

YOU MUST HAND THIS BOOKLET TO THE SUPERVISOR AT THE END OF THE EXAMINATION.

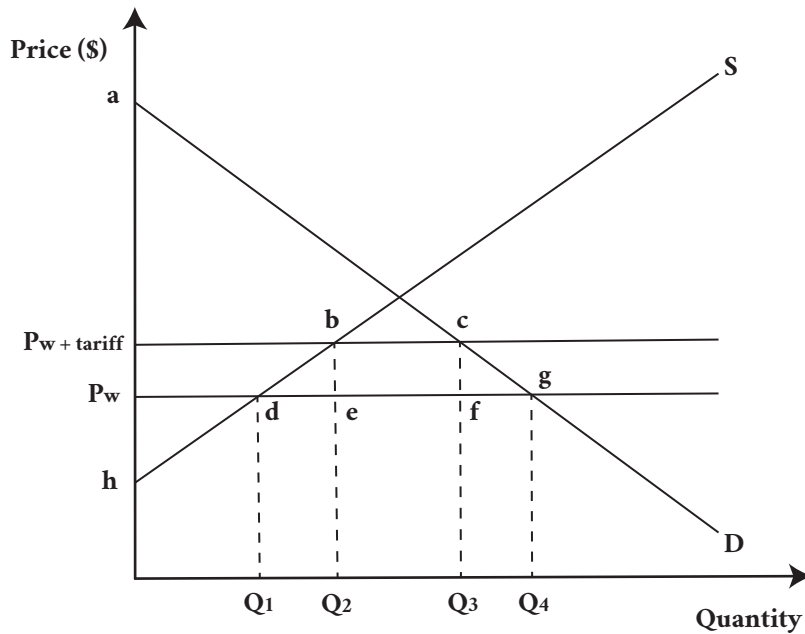
TOTAL

ASSESSOR'S USE ONLY

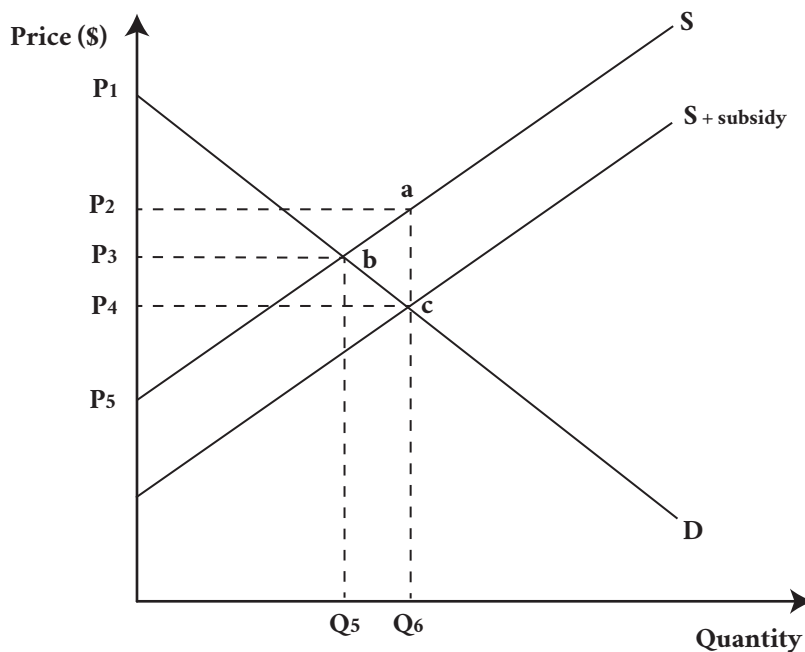
QUESTION ONE: Protecting local industry

Two policy options for the Government, if it wishes to protect local industry, are imposing tariffs on imported goods, or subsidising the production of New Zealand-made goods that compete with imported goods.

Graph One: A market for an imported good with a tariff imposed (price taker model)



Graph Two: A market for a locally-made good with a subsidy



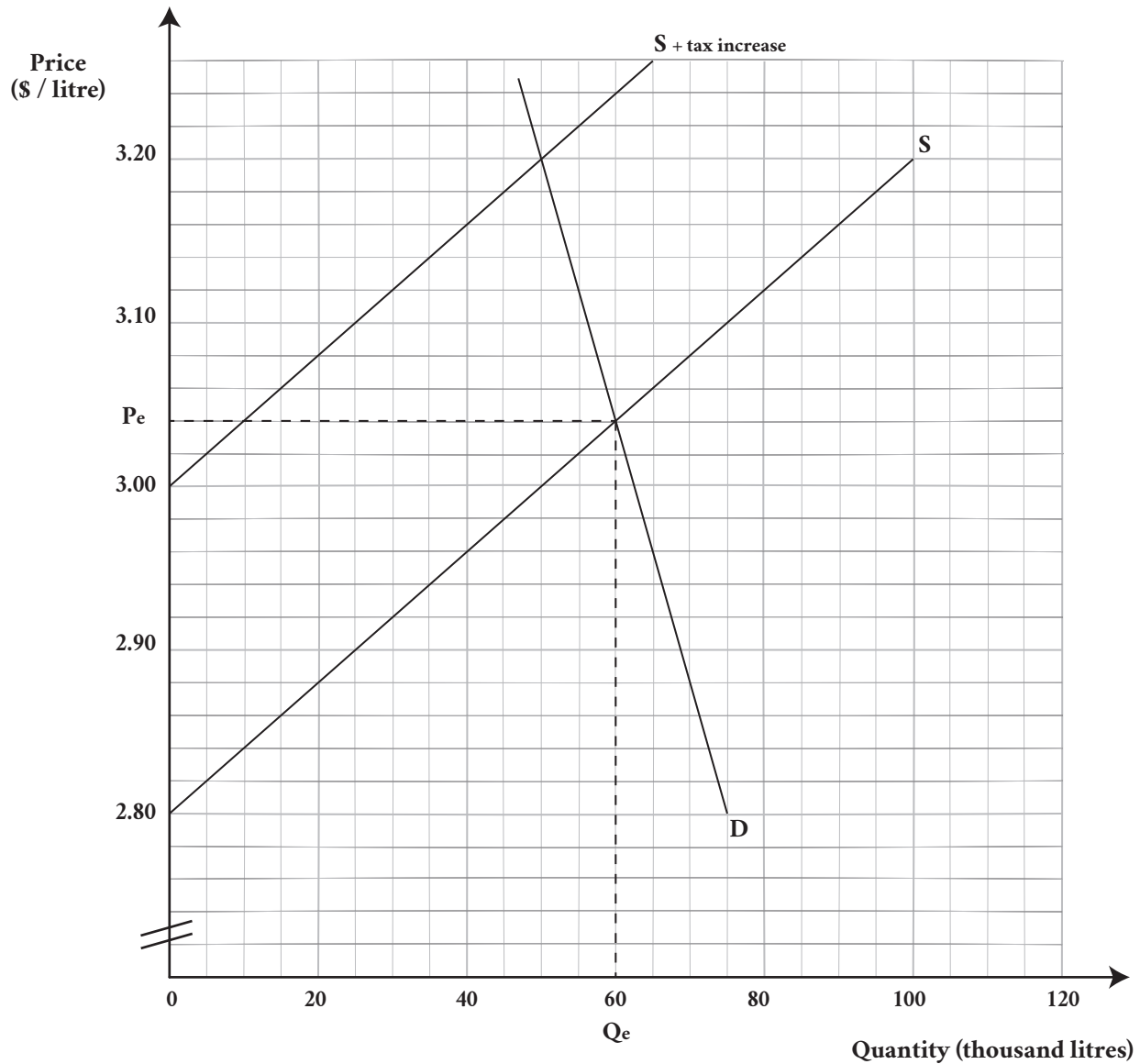
QUESTION TWO: Taxes on alcohol

ASSESSOR'S
USE ONLY

Excise taxes on alcohol are adjusted annually to reduce consumption and the negative impacts of excessive drinking.

Source (adapted): <https://www.customs.govt.nz/about-us/news/important-notice/new-excise-duty-rates-for-alcohol-from-1-july-2019/>

Graph Three: The market for an alcoholic drink after a 20c / litre tax increase



- (a) Refer to Graph Three to calculate the values in the table below, specifying an increase or decrease. Space for working is provided.

Table One

	Working	\$ value
Change in consumer surplus		
Change in producer surplus		
Tax revenue for government		
Deadweight loss		

- (b) Explain, in detail, the impact of the tax increase on consumer surplus. Refer to Graph Three and Table One in your answer.

- (c) Explain, in detail, the impact of the tax increase on producer surplus. Refer to Graph Three and Table One in your answer.

Please turn over ➤

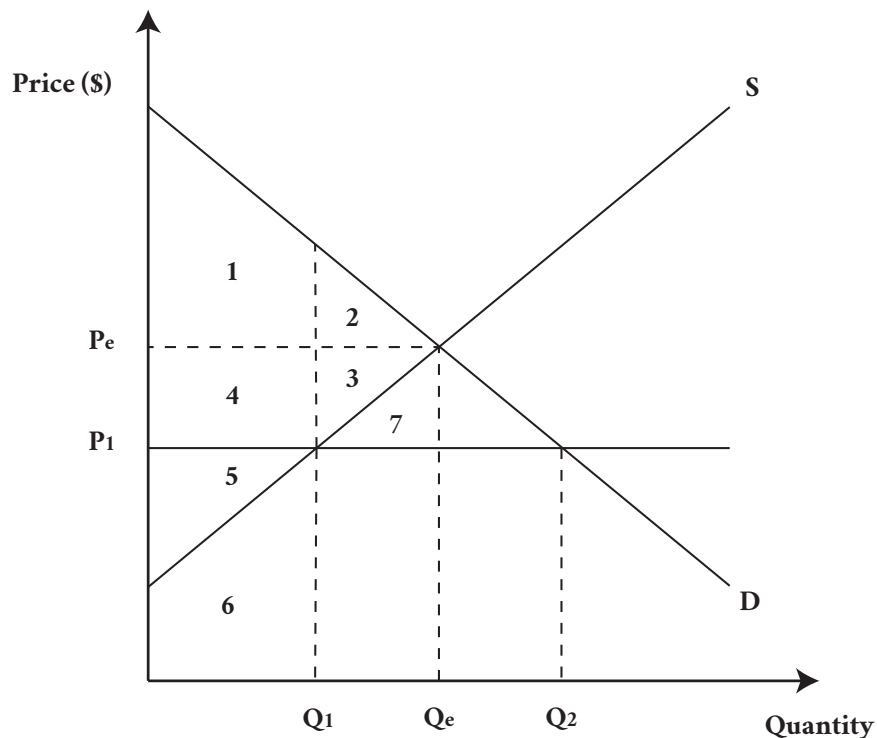
**This page has been deliberately left blank.
The examination continues on the following page.**

QUESTION THREE: The New Zealand housing market

Despite a significant increase in the total number of houses, New Zealand still has a shortage of affordable houses. Due to population growth, the increase in the supply of houses is not matching the increase in demand for houses.

Source (adapted) : <http://www.scoop.co.nz/stories/BU1907/S00495/new-zealands-housing-shortage-is-getting-worse-not-better.htm>

Graph Four: The New Zealand housing market with a shortage at price P_1



(a) Use the numbers from Graph Four to identify the:

- (i) consumer surplus at P_1 : _____
- (ii) producer surplus at P_1 : _____
- (iii) deadweight loss at P_1 : _____

(b) Assume the price is initially at P_1 in the New Zealand housing market. Explain, in detail, how house prices and the shortage of houses would be affected if market forces were operating freely. Refer to Graph Four in your answer.

- (c) Compare and contrast the impact on consumer surplus, producer surplus, and allocative efficiency if equilibrium is restored in the New Zealand housing market. Refer to Graph Four in your answer.

91399