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Level 3 Economics, 2018

91400 Demonstrate understanding of the efficiency of different market structures using marginal analysis

2.00 p.m. Friday 30 November 2018
Credits: Four

Achievement	Achievement with Merit	Achievement with Excellence
Demonstrate understanding of the efficiency of different market structures using marginal analysis.	Demonstrate in-depth understanding of the efficiency of different market structures using marginal analysis.	Demonstrate comprehensive understanding of the efficiency of different market structures using marginal analysis.

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 2–10 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

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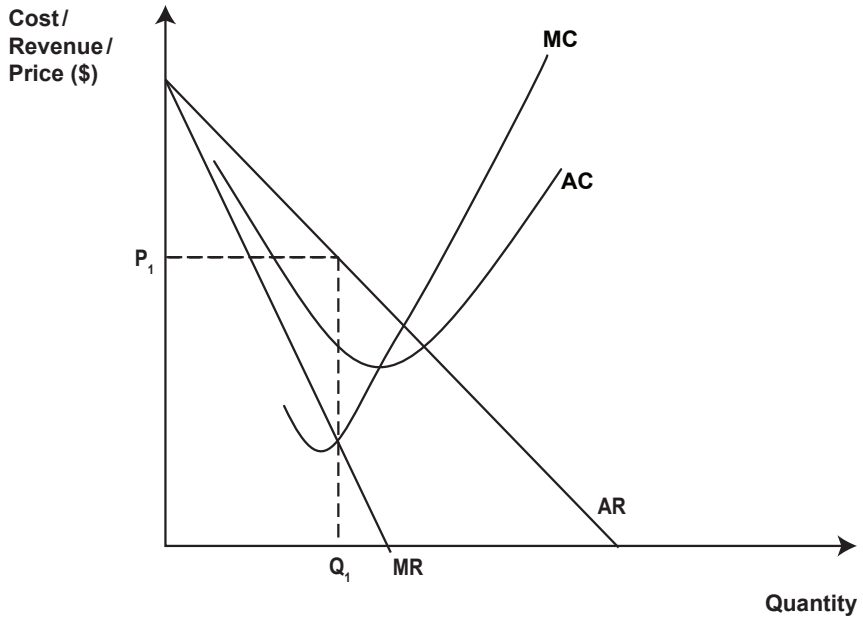
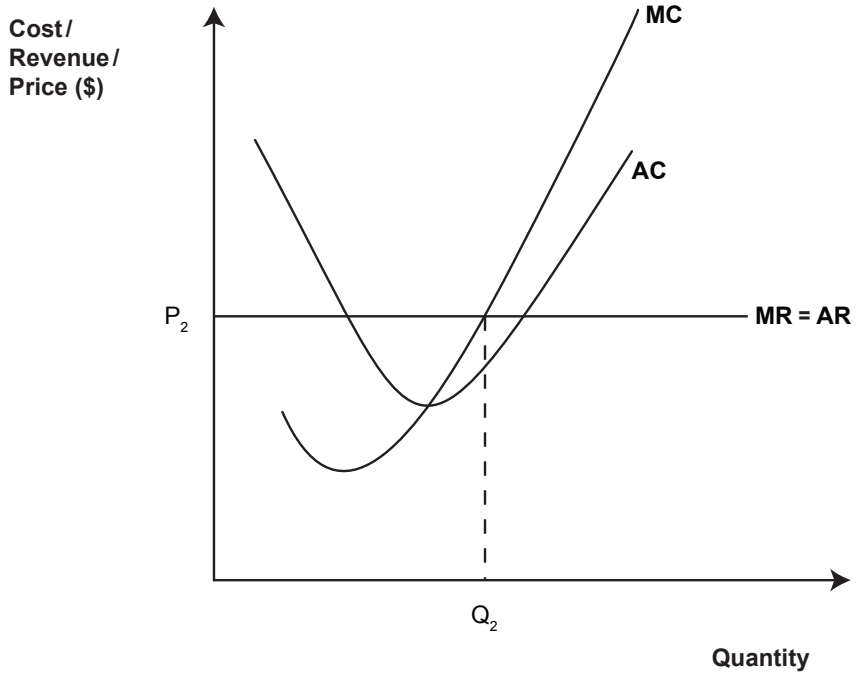
QUESTION ONE: MONOPOLY AND PERFECT COMPETITION

Graph One: A monopolist earning a supernormal profit in the short run



(a) On Graph One, clearly shade the short run supernormal profit earned by the monopolist.

Graph Two: A perfect competitor earning a supernormal profit in the short run



(b) On Graph Two, clearly shade the short run supernormal profit earned by the perfect competitor.

(c) Using marginal analysis and the key characteristics of monopoly and perfect competition market structures, compare and contrast the long run profits earned by these two firms.
In your detailed explanation:

- use Graphs One and Two to show changes (if any) in the long run price, output, and profit of each firm
- refer to these changes.

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QUESTION TWO: MONOPOLY AND NATURAL MONOPOLY

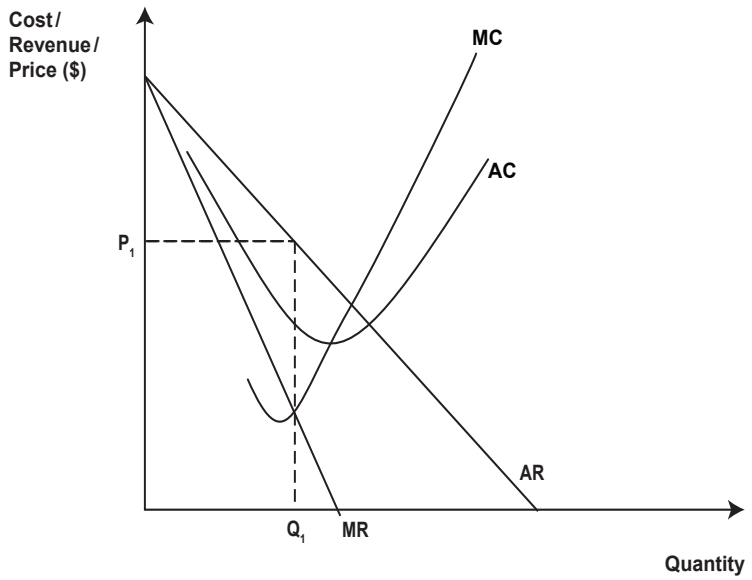
One of the main aims of the Commerce Commission is to prevent a firm from having a monopoly in a particular market after a merger or acquisition.

Source (adapted) http://www.comcom.govt.nz/business-competition.

New Zealand's sole electricity transmission business, *Transpower New Zealand*, has its own specialised form of price-quality regulation. *Transpower* is an example of a natural monopoly.

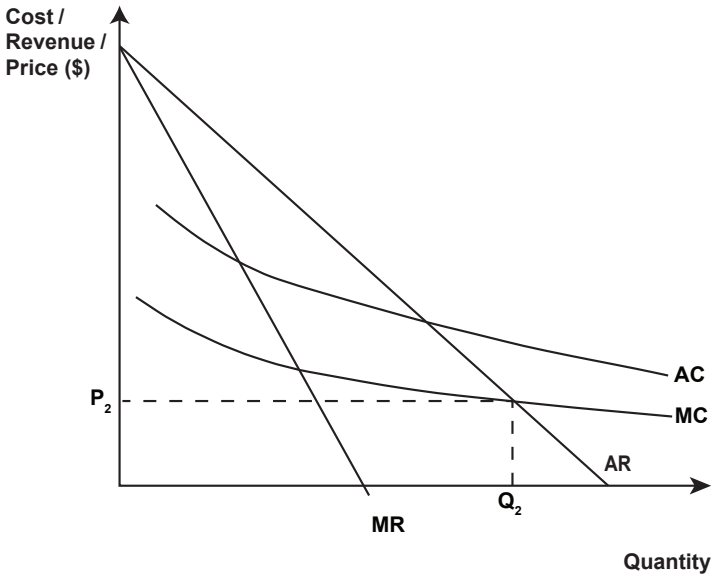
Source (adapted) http://www.comcom.govt.nz/regulated-industries/electricity/cpp/cpp-fact-sheet/.

Graph Three: A monopolist operating at the profit-maximising equilibrium



(a) On Graph Three, clearly shade and label the consumer surplus and deadweight loss (if any).

Graph Four: A natural monopolist operating within a marginal cost pricing regulation



(b) On Graph Four, clearly shade and label the consumer surplus and deadweight loss (if any).

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(c) Compare and contrast these two market situations: a monopolist operating at the profit-maximising equilibrium and a natural monopolist operating with a marginal cost-pricing regulation. In your answer, refer to both Graph Three and Graph Four and explain in detail which of these two market situations:

- is less beneficial for the consumer
- is allocatively efficient
- has the bigger impact on the Government.

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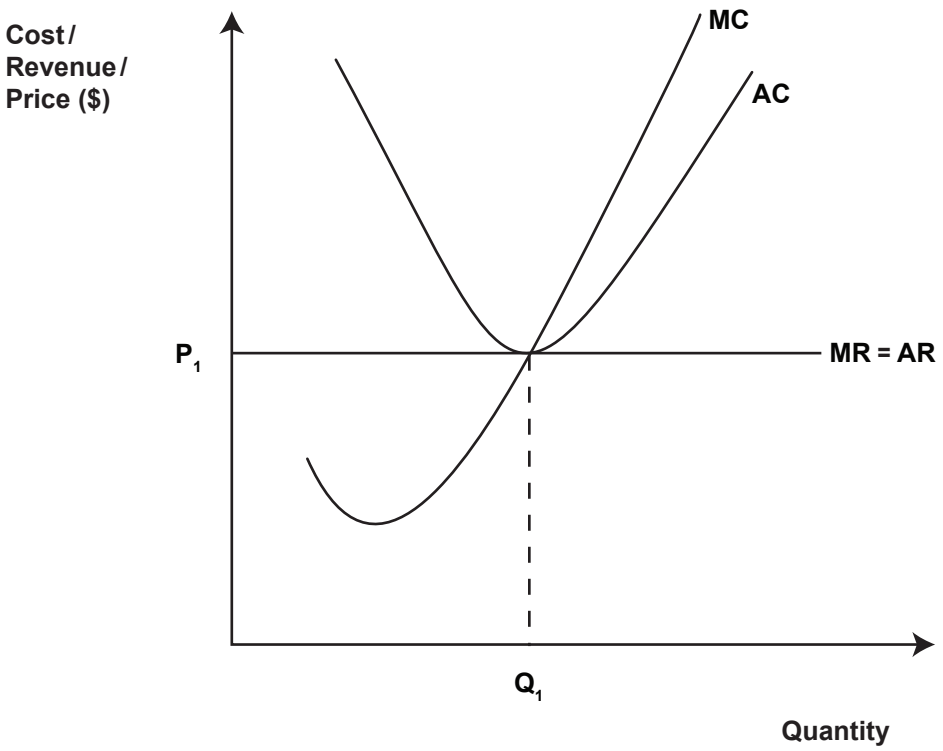
QUESTION THREE: CHANGES IN COST AND DEMAND

Rising incomes in the developing world have changed global eating habits during the last 25 years, and this has favoured vegetable consumption. This trend of increased vegetable consumption in developing countries is expected to continue during the coming decade, and this is obviously a big plus for New Zealand, given its proximity to markets in this region.

Source (adapted): https://www.rabobank.co.nz/media-releases/2017/170717-nz-fruit-and-vegetable-sector-urged-to-watch-consumer-trends/.

Graph Five: A New Zealand vegetable grower as a perfect competitor earning a normal profit in the short run



(a) Complete Graph Five to show how an increase in global vegetable consumption would affect the individual New Zealand vegetable grower in the short run. Clearly label any curve shifts and any changes in the short-run price, short-run quantity, and economic profit earned.

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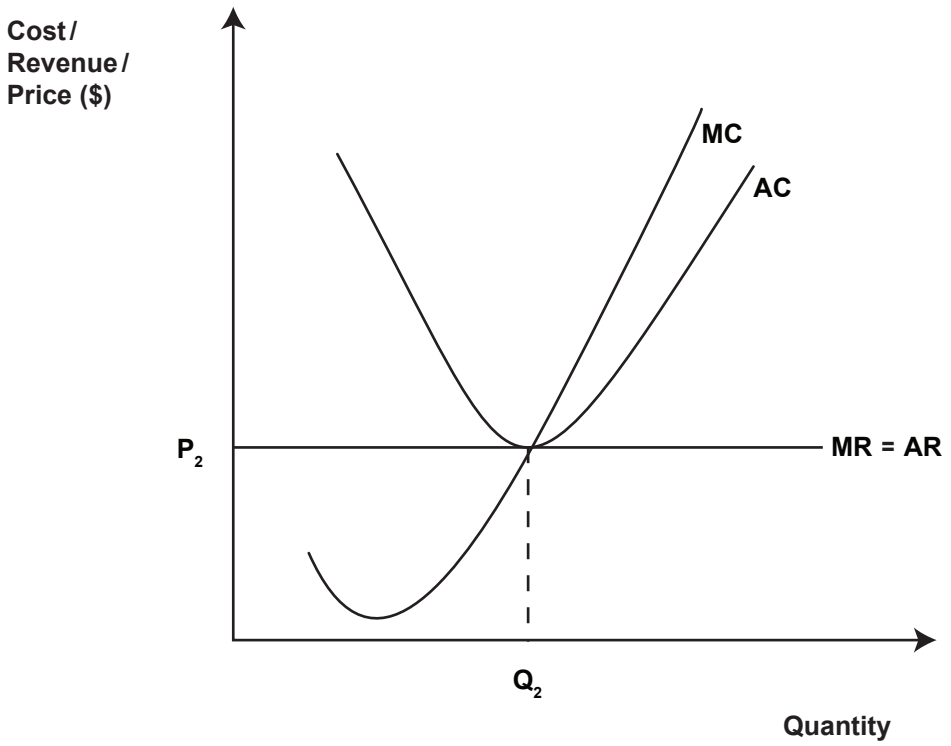
The minimum wage increased from $15.75 to $16.50 on 1 April 2018. Increased wages would increase variable costs for vegetable growers.

Graph Six: A New Zealand vegetable grower as a perfect competitor earning a normal profit in the short run



(b) Complete Graph Six to show how an increase in variable costs caused by increasing wages would affect the individual New Zealand vegetable grower in the short run. Clearly label any curve shifts and any changes in the short-run price, short-run quantity, and economic profit earned.

(c) Use marginal analysis to compare and contrast the impact of an increase in global vegetable consumption with the impact of an increase in variable costs, on the short-run price and short-run output decisions of the individual New Zealand vegetable grower. Refer to both Graph Five and Graph Six in your answer.

More answer space is available on the next page.

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Extra space if required.
Write the question number(s) if applicable.

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