ERUVIO MENTORING · EXTERNAL-STYLE EXAMINATION

Economics

Unit 2 · Modified markets

Combination response

ALL SECTIONS · 61 MARKS

STUDENT DETAILS

GIVEN NAME(S) ____________________ FAMILY NAME ____________________

SCHOOL ____________________ DATE ____________________ BOOK OF ____________

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Structure of this examination

SECTION	QUESTION TYPE	NUMBER OF QUESTIONS	MARKS
Section 1	Multiple choice	10	10
Section 2	Short response	4	25
Section 3	Extended response, 400 to 600 words	1	26
Total	**Combination response**	**15 questions**	**61**

Assessment objectives

Questions in this examination are written against the objectives of the QCAA Economics syllabus. The marking guide records which objectives each question assesses.

	ASSESSMENT OBJECTIVE
1	Comprehend economic concepts, principles and models
2	Select economic data and information from sources
3	Analyse economic issues and data
4	Evaluate economic outcomes and policies to make decisions
5	Create responses that communicate economic meaning

Instructions

- **Perusal time: 15 minutes. Working time: 120 minutes.**
- You may use a QCAA-approved calculator. A stimulus book is provided and must be used for the questions that refer to it.
- Write using black or blue pen. Planning paper will not be marked.
- All questions are drawn from Unit 2 (modified markets): markets and efficiency, and case studies of market measures.
- **Section 1** contains 10 multiple choice questions worth 1 mark each.
- **Section 2** contains 4 short response questions worth 25 marks in total.
- **Section 3** contains one extended response worth 26 marks. Your response should be 400 to 600 words of continuous prose.

Answer all questions. Section 1 answers must be recorded on the response grid at the end of Section 1.

Section 1

Multiple choice · 10 questions · 10 marks

1 A market achieves allocative efficiency when

- **A** total output is produced at the lowest possible average cost.
- **B** every firm in the market earns the same level of profit.
- **C** resources are allocated so that marginal social benefit equals marginal social cost.
- **D** all firms in the market produce an identical good.

2 A firm is productively efficient when it

- **A** produces its chosen output at the lowest possible cost per unit.
- **B** produces the quantity of output that society values most highly.
- **C** earns the largest possible profit.
- **D** sets its price equal to marginal social cost.

3 A defining characteristic of a pure public good is that it is

- **A** produced only by firms in the private sector.
- **B** provided free of charge to every consumer.
- **C** rival in consumption but not excludable.
- **D** non-rival and non-excludable in consumption.

4 An unregulated ocean fishery is depleted because each operator has an incentive to catch as much as possible before others do. This is an example of

- **A** a public good that is under-provided by the market.
- **B** a common access resource being over-used because it is rival but not excludable.
- **C** asymmetric information between buyers and sellers.
- **D** a natural monopoly restricting output.

5 The seller of a used car knows of a mechanical fault that the buyer cannot detect before purchase. This is an example of

- **A** a positive externality of consumption.
- **B** a public good.
- **C** asymmetric information.
- **D** a binding price floor.

6 A market in which many small firms sell an identical product, buyers and sellers are well informed, and firms can enter and leave freely, is best described as

- **A** perfect competition.
- **B** monopolistic competition.
- **C** an oligopoly.
- **D** a monopoly.

7 Which of the following is an example of a negative externality of production?

A a firm paying wages to the workers it employs

B a factory discharging untreated waste into a river used by others

C a government paying a subsidy to vaccine producers

D a consumer enjoying a film they have paid to see

8 A government sets a maximum price for rental housing below the equilibrium price. In that market this will create

A a surplus of rental housing.

B no change in the quantity of housing traded.

C an increase in the quantity of housing supplied.

D a shortage of rental housing.

9 An indirect tax is imposed on the producers of a good for which demand is highly inelastic and supply is elastic. The burden of the tax will fall

A mainly on producers, through lower revenue per unit.

B equally on consumers and producers in every case.

C mainly on consumers, through a higher price.

D entirely on producers, because they remit the tax to government.

10 A tradeable emissions permit scheme reduces pollution at least cost to the economy because

A firms that can cut emissions most cheaply do so and sell their surplus permits to firms that cannot.

B every firm is required to cut its emissions by the same proportion.

C the government sets the price of permits directly each year.

D permits are issued only to the largest polluters in the industry.

Section 1 response grid

Shade or cross the box for your chosen answer

Question	A	B	C	D
1				
2				
3				
4				
5				
6				
7				
8				
9				
10				

Section 2

Short response · 4 questions · 25 marks

11 Refer to **Source 1** in the stimulus book. [6 marks]

(a) Identify the market structure that best describes each of markets X, Y and Z, and justify one of your choices. [3]

Market X ____________________ Market Y ____________________

Market Z ____________________

(b) Explain one reason why a monopoly is likely to produce a less efficient outcome for consumers than a perfectly competitive market. [3]

12 Refer to **Source 2** in the stimulus book. [6 marks]

(a) Using Source 2, explain why the market outcome in this market is not allocatively efficient. [3]

(b) Identify the area on the diagram that represents the loss of welfare to society, and explain what that loss represents in economic terms. [3]

13 Refer to **Source 5** in the stimulus book. [6 marks]

(a) State the effect of the maximum price on the quantity supplied and the quantity demanded in this market. [2]

(b) Analyse two consequences of this measure for the rental housing market, other than the change in price. [4]

14 Refer to **Source 6** in the stimulus book. [7 marks]

(a) Explain the effect of the subsidy on the equilibrium price paid by consumers and on the equilibrium quantity traded. Refer to the diagram in your response. [3]

(b) Analyse why a government might subsidise this good, and identify one cost of doing so. [4]

Section 3

Extended response · 1 question · 26 marks

15 Sugar-sweetened beverages generate costs that fall on people other than the buyer and the seller. The government of the hypothetical economy described in the stimulus book has introduced a levy on these drinks rather than regulating their sugar content directly. [26 marks]

Task. Using **Source 2**, **Source 3**, **Source 4** and **Source 8**, and your own economic knowledge, **evaluate** the effectiveness of the levy as a response to this market failure. Reach a justified conclusion about whether the levy should be retained, changed or replaced by direct regulation.

Write **400 to 600 words** of continuous prose. You may use a diagram to support your response, but a diagram alone will not earn marks.

PLANNING SPACE · NOT MARKED

END OF PAPER