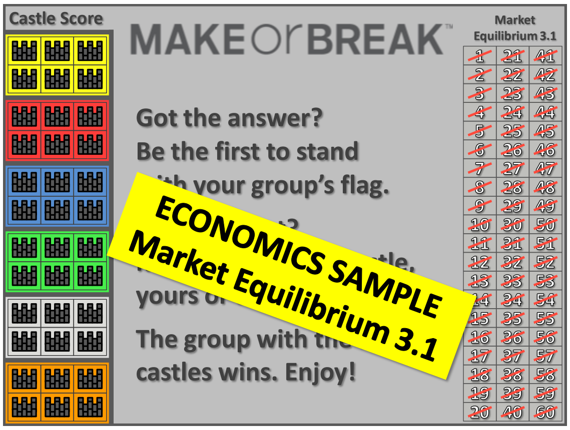
Efficiency of Market Equilibrium 3.1 SAMPLE



Score

Answer

Question 1:
Define market equilibrium.

Answer:
The price where quantity supplied is the same as quantity demanded.

MAKEorBREAK?

Score

Answer

Question 2:
State the market situation that occurs immediately after an increase in market demand.

Answer:
Shortage or excess demand.

MAKEorBREAK?

Score

Answer

Question 3:
Describe why a surplus occurs in a market.

Answer:
If the current price is higher than the equilibrium price, quantity supplied is greater than quantity demanded.

MAKEorBREAK?

Score

Answer

Question 4:
State the two market forces.

Answer:
Market demand and market supply.

MAKEorBREAK?

Score

Answer

Question 5:
Which of the following is NOT a demand determinant?

a) Income
b) Complement price
c) Substitute price
d) Other related goods

Answer:
d)

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Score

Answer

Question 6:
Explain how the market reacts to a decrease in market supply.

Answer:
Quantity demanded greater than quantity supplied at current price. Consumers bid up price so they don't miss out. As price rises, quantity demanded falls and quantity supplied rises. Continues until equilibrium restored.

Score

Answer

Question 7:
Describe why the price falls following a decrease in market demand.

Answer:
Surplus occurs at current price, so firms lower prices to clear stock.

MAKEorBREAK?

Score

Answer

Question 8:
Define consumer surplus.

Answer:
The difference between the total that consumers gain from consumption and the amount they have to pay for consumption.

MAKEorBREAK?

Score

Answer

Question 9:
If you sell an old Xbox game on TradeMe for $40 and your reserve was $30. What was your producer surplus?

Answer:
$10

MAKEorBREAK?

Score

Answer

Question 10:
If you were prepared to pay $8 for a subway but it was on special for $6, what was your consumer surplus?

Answer:
$2

MAKEorBREAK?

Score

Answer

Question 11:
Explain how market forces react to a surplus.

Answer:
Firms lower price to clear excess supply. As price falls, quantity demanded increases and quantity supplied decreases. Process continues until equilibrium is restored.

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Answer

Question 12:
Explain how market forces react to a shortage.

Answer:
Consumers bid up price so they don't miss out. As price increases, quantity demanded decreases and quantity supplied increases. Process continues until equilibrium is restored.

Score

Answer

Question 13:
What economic term describes the situation when a bidder on TradeMe wins an auction for less than their highest auto-bid amount?

Answer:
Consumer surplus

MAKEorBREAK?

Score

Answer

Question 14:
What economic term describes the situation when consumer surplus and producer surplus are maximised?

Answer:
Allocative efficiency

MAKEorBREAK?

Score

Answer

Question 15:
What economic term describes the situation when a seller on TradeMe sells an item above their reserve price.

Answer:
Producer surplus

MAKEorBREAK?

Score

Answer

Question 16:
Why is the market allocatively efficient at equilibrium?

Answer:
Because the consumer surplus and producer surplus is maximised.

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Score

Answer

Question 17:
Why does the producer surplus increase following an increase in market demand?

Answer:
More output is sold at a higher price so the producer surplus increases.

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Answer

Question 18:
What exists when a market is not at equilibrium?

Answer:
Deadweight loss

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Score

Answer

Question 19:
Why does a deadweight loss occur when the government imposes price controls in market?

Answer:
Because the market is prevented from reaching equilibrium, consumer surplus and producer surplus cannot be maximised.

Score

Answer

Question 20:
What is the one factor that causes an increase in quantity demanded?

Answer:
A decrease in price.

MAKEorBREAK?

Score

Answer

Question 21:
State the only two factors that cause a shift of the supply curve.

Answer:
Change in costs of production; Change in the price of another related good the firm could produce.

MAKEorBREAK?

Score

Answer

Question 22:
Identify the missing words:
The market is a________ e________ when total surplus is m______________.

Answer:
allocatively efficient, maximised

MAKEorBREAK?

Score

Answer

Question 23:
Describe the two reasons why consumer surplus increases when the price of a good falls.

Answer:
1. the difference between what consumers are willing to pay, and the amount they have to pay falls, so they gain more surplus on each unit of a good.
2. quantity demanded increases, so more surplus is gained on more units.

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Answer

Question 24:
Explain the difference between the world price and the domestic price

Answer:
The World price is the average price of a good in different countries. The domestic price is the price in New Zealand.

Score

Answer

Question 25:
Give two reasons why producer revenue decreases following the introduction of a sales tax.

Answer:
Producer pays part of the sales tax; quantity demanded decreases, so revenue falls.

Score

Answer

Question 26:
Explain why consumer surplus decreases following the introduction of a sales tax.

Answer:
The price the consumer pays increases, so the difference between what consumers are prepared to pay and the price they have to pay decreases / less units are purchased at the higher price, so total consumer surplus decreases.

Score

Answer

Question 27:
What is meant by the term 'incidence to consumers' of a sales tax?

Answer:
The amount of a sales tax that is paid by consumers.

MAKEorBREAK?

Score

Answer

Question 28:
State the other name for the price taker (international trade) model.

Answer:
Two country model

MAKEorBREAK?

Score

Answer

Question 29:
How does the 'two country' international trade model show gains from trade?

Answer:
Increase in overall producer and surplus. This shows allocative efficiency has increased.

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Answer

Question 30:
In the 'one country' international trade model, why is the world supply curve horizontal?

Answer:
World supply is perfectly elastic. At this price the world can supply unlimited quantities.

Score

Answer

Question 31:
Identify the missing word:
If the world price is below the domestic price, then New Zealand will __________ the product.

Answer:
import

MAKEorBREAK?

Score

Answer

Question 32:
What effect does a government imposed tariff have on the world price of an imported good?

Answer:
It increases the world price.

MAKEorBREAK?

Score

Answer

Question 33:
Identify the missing word:
If the world price is above the domestic price, then New Zealand will __________ the product.

Answer:
export

MAKEorBREAK?

Score

Answer

Question 34:
On a supply and demand curve, where is the allocatively efficient price and quantity?

Answer:
At the equilibrium

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Score

Answer

Question 35:
On the two country trade model, how is the trading price determined?

Answer:
The price where the quantities exported and imported are the same.

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Answer

Question 36:
Explain two reasons why the NZ producer surplus increases when they export.

Answer:
NZ producers receive a higher price so the surplus on each unit sold rises, and as quantity sold rises, more surplus is gained on more units.

Score

Answer

Question 37:
Explain two reasons why the NZ consumer surplus increases when NZ imports goods.

Answer:
NZ consumers can buy goods at a cheaper price, so the surplus on each unit purchased increases, and as the quantity demanded increases, more surplus is gained on more units.

Score

Answer

Question 38:
The price of a good is high in NZ and low in Tonga. Which country will export and which country will import with trade?

Answer:
Tonga will export to NZ and NZ will import from Tonga.

Score

Answer

Question 39:
State two impacts of an increase in exports from NZ on NZ consumers.

Answer:
e.g. domestic price increases so NZ consumers quantity demanded falls, NZ consumer surplus falls.

Score

Answer

Question 40:
The price of a good is low in Japan and high in China. Which country will export and which country will import with trade?

Answer:
Japan will export to China and China will import from Japan.

Score

Answer

Question 41:
State two impacts of an increase in exports from NZ on NZ producers.

Answer:
e.g. Price increases so NZ firms quantity supplied increases, revenue, sales and profits increase, producer surplus increases. Domestic sales fall but exports increase so total sales increase.

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Score

Answer

Question 42:
What happens to the market supply curve when a subsidy is granted by the government?

Answer:
Supply curve 'shifts" to the left to S + subsidy.

Score

Answer

Question 43:
What happens to the consumer surplus when a subsidy is granted by the government?

Answer:
Consumer surplus increases as price falls and quantity demanded increases so more surplus is gained per unit and more units consumed so overall total surplus increases.

Score

Answer

Question 44:
What happens to the producer surplus when a subsidy is granted by the government?

Answer:
Producer surplus increases as price received by producers increases and quantity sold increases so more surplus is gained per unit and more units are sold so overall total surplus increases.

Score

Answer

Question 45:
Is the market allocatively efficient when the government grants a subsidy?

Answer:
No

Score

Answer

Question 46:
Why does a deadweight loss occur when the government grants a subsidy?

Answer:
Not all of the total subsidy paid goes to consumers or producers in the form of surplus, it is lost from the market.

Score

Answer

Question 47:
Deadweight loss means a market is not allocatively efficient. What shape illustrates this loss of allocative efficiency on a supply and demand model?

Answer:
Triangle.

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Score
Answer

Question 48:
What happens to the producer surplus when a maximum price control is imposed by the government?

Answer:
Decreases.

Score
Answer

Question 49:
What happens to the consumer surplus when a minimum price control is imposed by the government?

Answer:
Decreases

Score
Answer

Question 50:
Which of the following situation/s are allocatively efficient?
a) Subsidy
b) Sales tax
c) Quota
d) Tarriff
e) Market at equilibrium

Answer:
e) Market at equilibrium

Score
Answer

Question 51:
What happens to the consumer surplus following the imposition of a sales tax?

Answer:
It decreases

Score
Answer

Question 52:
What happens to the producer surplus following the imposition of a sales tax?

Answer:
It decreases

MAKEorBREAK?

Score
Answer

Question 53:
Why does the imposition of a sales tax cause a loss of allocatively efficiency?

Answer:
While some of the original consumer surplus is transferred to the government as tax revenue, some is lost from the market.

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Answer

Question 54:
Why does the producer surplus decrease following the imposition of a sales tax?

Answer:
The price producers receive falls as they have to pay the sales tax to the government so the surplus per unit falls, and less units are sold overall so less surplus is gained on less units.

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Score

Answer

Question 55:
Why does the consumer surplus decrease following the imposition of a sales tax?

Answer:
The price consumers pay increases as they have to pay some of the sales tax, so the surplus per unit consumed falls, and less units are purchased so less surplus is gained on less units.

Score

Answer

Question 56:
True or false?
Every time the government intervenes in the market and the market equilibrium cannot be achieved, a deadweight loss is created.

Answer:
True

Score

Answer

Question 57:
What happens to the quantity of imports following the imposition of a tariff on imports to NZ?

Answer:
Imports decrease

Score

Answer

Question 58:
What happens to the size of the producer surplus following the increase in a tariff on imports to NZ?

Answer:
Producer surplus increases

Score

Answer

Question 59:
What happens to the size of the consumer surplus following a decrease in the tariff on imports to NZ

Answer:
Consumer surplus increases

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Score

Answer

Question 60:

True or false?

If the government imposed a quota on imported cars, the market for cars would not be allocatively efficient.

Answer:

True

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