



South Australian  
Certificate of Education

# Economics 2023

## Question booklet 1

- Questions 1 and 2 (41 marks)
- Answer **all** questions
- Write your answers in this question booklet
- You may write on page 10 if you need more space
- Allow approximately 65 minutes

## Examination information

### Materials

- Question booklet 1
- Question booklet 2
- SACE registration number label

### Instructions

- Use black or blue pen

**Total time:** 130 minutes

**Total marks:** 80

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Attach your SACE registration number label here



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1. **Source A**

There are two main types of potatoes in Country A: processing potatoes and table potatoes. Processing potatoes are used to make frozen fries (also known as chips) for restaurants and supermarkets, whilst table potatoes are used for all other purposes.

While poor weather has affected the production of both types of potatoes this year, the area where processing potatoes are grown has been affected more significantly. This has impacted the production of processing potatoes more than the production of table potatoes.

- (a) (i) Explain why the structure of the potato market cannot be classified as perfect competition. In your answer, refer to one of the characteristics that distinguish market structures.

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(2 marks)

- (ii) Outline one reason why consumers may be disadvantaged by the potato market not being perfectly competitive.

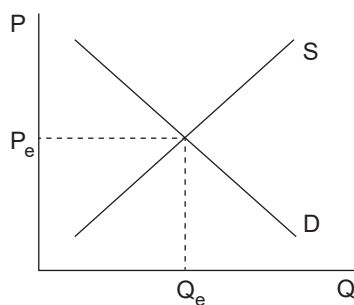
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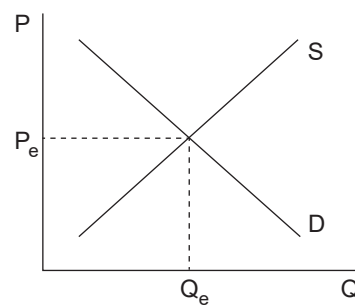
(1 mark)

- (b) Complete the following diagrams to illustrate the impact of poor weather and flooding on the markets for processing potatoes and table potatoes.

**Market for processing potatoes**



**Market for table potatoes**



(3 marks)

- (c) (i) Outline why the change in the market for processing potatoes identified in part (b) is likely to affect the market for frozen fries.

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(1 mark)

- (ii) Explain how the price mechanism would impact both producers and consumers to return the market for frozen fries to equilibrium.

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(2 marks)

**Source B**

Owners of family restaurants in Country A are major purchasers of frozen fries, which are included in almost every meal. There are effectively no suitable substitutes for these fries for family restaurants.

- (d) (i) Explain why demand for frozen fries from family restaurants is likely to be highly price inelastic.

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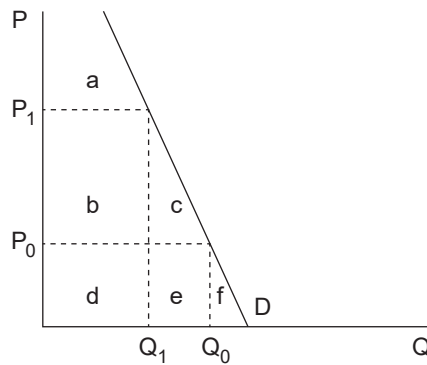
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(2 marks)

- (ii) Explain the impact of an increase in the price of frozen fries from  $P_0$  to  $P_1$  on the total revenue of processors of frozen fries. Refer to the diagram below in your answer.

**Demand for frozen fries from family restaurants**



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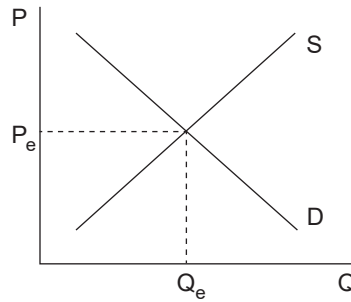
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(3 marks)

Owners of family restaurants have reacted to changes in the market for frozen fries in different ways. Some are making their own fries from table potatoes (which are less suitable for fries) and others have reduced their serving sizes. Both responses have led to a decrease in the frequency of consumers eating out. Some owners have even been forced to close their restaurants due to a reduced number of customers.

- (e) Explain the likely effects of the changes in the market for frozen fries on the market for meals at family restaurants. Complete the diagram below to support your answer.

**Market for meals at family restaurants**



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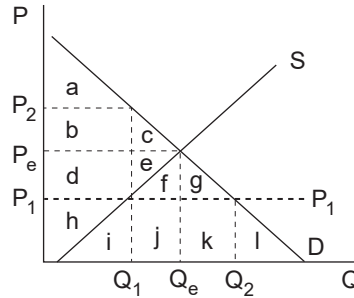
(4 marks)

**Source C**

Consumers who purchase frozen fries from supermarkets have also been affected by the changes in the market for frozen fries. Supermarket Chain 1, one of Country A's two supermarket chains, has chosen to hold the price of frozen fries at  $P_1$  and has also set buyer limits to help availability and affordability for customers.

- (f) (i) Use the following diagram to identify the impact on both consumer surplus and producer surplus of Supermarket Chain 1's decision to hold prices at  $P_1$ . Write your answer in the table below.

**Market for frozen fries at supermarket chains**



|                                    |                                    |
|------------------------------------|------------------------------------|
| Consumer surplus if price is $P_e$ | Consumer surplus if price is $P_1$ |
| Producer surplus if price is $P_e$ | Producer surplus if price is $P_1$ |

(2 marks)

- (ii) Referring to intended and unintended consequences, assess the likely effectiveness of Supermarket Chain 1's decision to hold prices at  $P_1$  and set buyer limits.

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(4 marks)

**Source D**

The other supermarket chain in Country A, Supermarket Chain 2, must now decide if it will follow the decision of Supermarket Chain 1 to hold the price of frozen fries at  $P_1$  and set buyer limits. The following payoff matrix shows the revenue (\$billion) that each supermarket chain can make when it chooses between:

- holding price and setting buyer limits
- not holding price and not setting buyer limits

|                     |   | Supermarket Chain 1                    |  |
|---------------------|---|--|--|
|                     |   | <i>Hold price and set buyer limits</i> | <i>Not hold price and not set buyer limits</i> |
| Supermarket Chain 2 | Hold price and set buyer limits         | 2.0 / 1.9                              | 2.3 / 1.7                                      |
|                     | Not hold price and not set buyer limits | 2.2 / 2.1                              | 2.4 / 1.8                                      |

(g) (i) Use game theory to explain the likely action of Supermarket Chain 2.

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(2 marks)

(ii) Explain why Supermarket Chain 2 must consider the actions of Supermarket Chain 1 when deciding whether to hold prices and set buyer limits.

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(2 marks)

2. **Source E**

Frozen fries are generally deep fried in oil. Health groups in Country A have highlighted the benefits to society of a reduction in the consumption of deep fried foods such as fries. These health groups have stated, 'Reduced consumption of fries will minimise obesity and related issues, thus decreasing the opportunity cost to government of addressing these issues'.

The following data relates to the consumption of fries in Country A in kilograms per person per year.

- Mean consumption 18 kg
- Median consumption 17 kg

| <i>Income quintile</i> | <i>Consumption of fries<br/>(kg per person per year)</i> |
|------------------------|--|
| Bottom 20%             | 24   |
| Second 20%             | 22   |
| Middle 20%             | 17   |
| Fourth 20%             | 15   |
| Top 20%                | 12   |

(a) (i) Explain why the consumption of fries creates a market failure.

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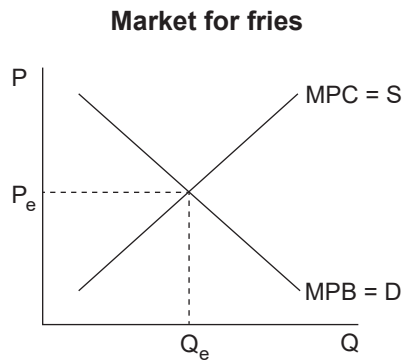
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(3 marks)

(ii) Complete the diagram below to illustrate the market failure discussed in part (a)(i).  
Clearly label the deadweight loss (DWL).



(2 marks)













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# Economics 2023

## Question booklet 2

- Questions 3 and 4 (39 marks)
- Answer **all** questions
- Write your answers in this question booklet
- You may write on page 9 if you need more space
- Allow approximately 65 minutes

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3. **Source F**

Country X's price stability objective is to maintain an inflation rate of between 2–3% over the course of the business cycle. A government spokesperson has stated that long-term economic growth and higher living standards could be achieved if inflation was low and stable but not if inflation was high.

An increase in aggregate demand driven by higher consumption spending has led to Country X experiencing an inflationary gap and an inflation rate above 7.3%.

Several groups have suggested that the government of Country X should not intervene in this inflationary economy, but a government spokesperson disagreed and argued that it was necessary to implement contractionary monetary policy to reduce inflation. The spokesperson also stated that contractionary monetary policy is currently the most effective demand management policy to achieve price stability in Country X.

(a) Explain *one* possible reason why Country X's inflation target is not 0%.

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(2 marks)

(b) Evaluate the statement by the government spokesperson that long-term economic growth and higher living standards could be achieved if inflation was low and stable, but not if inflation was high.

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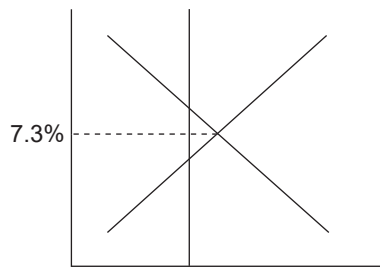
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(4 marks)

- (c) With reference to AD–AS theory, explain the likely long-run adjustments to economic conditions in Country X if the government does not intervene in the economy. Fully label and complete the AD–AS diagram below to support your answer.



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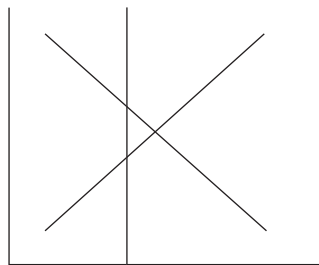
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(3 marks)

- (d) Explain how contractionary monetary policy could help achieve price stability in Country X. Fully label and complete the AD–AS diagram below to support your answer.



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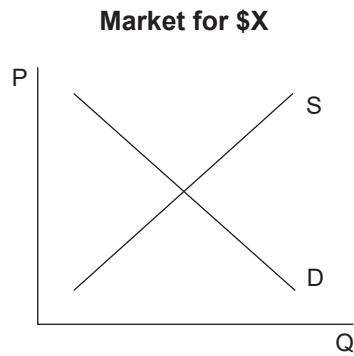
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(3 marks)



- (e) Analyse the likely impact of contractionary monetary policy on Country X's exchange rate (\$X). Complete the diagram below to support your answer.



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(4 marks)

- (f) Evaluate the government spokesperson's statement that contractionary monetary policy is currently the most effective demand management policy to achieve price stability in Country X.

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(5 marks)

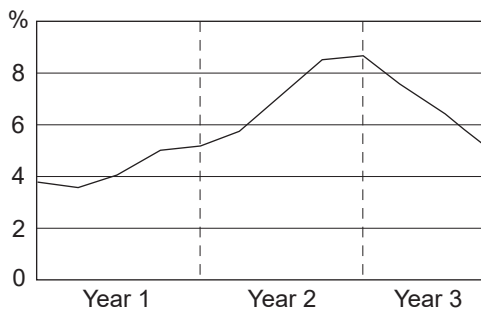
4. **Source G**

Refer to the following information for Country W.

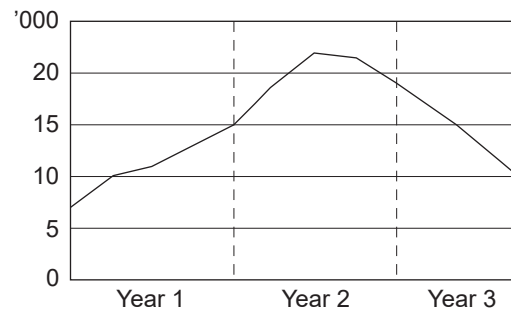
Since Year 1, the government of Country W has used fiscal policy to increase economic growth. While these policy measures were successful, there are concerns that economic growth in Year 3 (which is above the target rate of 3–4%) is now too high.

|                            | Year 1 | Year 2 | Year 3 |
|----------------------------|--------|--------|--------|
| Real GDP growth (% change) | -1.9   | 2.8    | 5.9    |
| Budget balance (\$billion) | -\$160 | -\$110 | -\$100 |

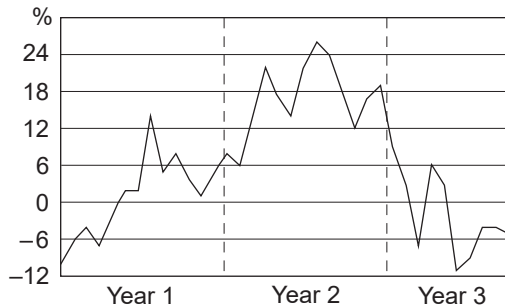
**Figure 1: Business investment (% annual growth)**



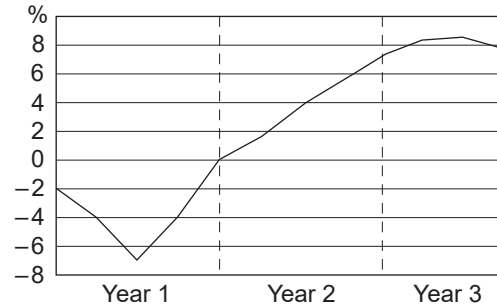
**Figure 2: Building approvals (per month, in thousands)**



**Figure 3: Consumer confidence (% deviation from average)**



**Figure 4: Retail sales (annual % growth)**



- (a) Explain how it was possible for real GDP growth to be negative in Year 1, despite an increase in business investment.

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(2 marks)







