



Economics

2025

1

Question booklet 1

- Questions 1 to 3 (38 marks)
- Answer **all** questions
- Write your answers in this question booklet
- You may write on page 11 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
- You may use a sharp dark pencil for diagrams

Total time: 130 minutes

Total marks: 80

© SACE Board of South Australia 2025

The SACE Board of South Australia acknowledges that this examination was created on Kaurna Land. We acknowledge First Nations Elders, parents, families, and communities as the first educators of their children, and we recognise and value the cultures and strengths that First Nations students bring to the classroom. We respect the unique connection and relationship that First Nations peoples have to Country, and their ever-enduring cultural heritage.

Attach your SACE registration number label here



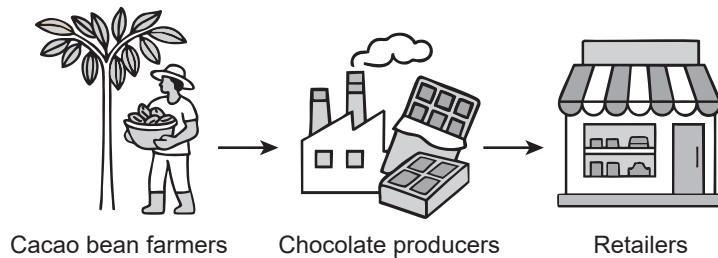
Government
of South Australia

SACE
BOARD
OF SOUTH
AUSTRALIA

Questions 1 to 3 relate to the three distinct markets; cacao beans, chocolate production, and chocolate retailing in Country X.

Refer to the following information.

- Cacao bean farmers grow cacao beans which are harvested from cacao trees. The cacao trees grow only in warm tropical climates near the equator.
- Chocolate producers use cacao beans as a resource to produce chocolate.
- Retailers purchase chocolate from producers and sell it to consumers.

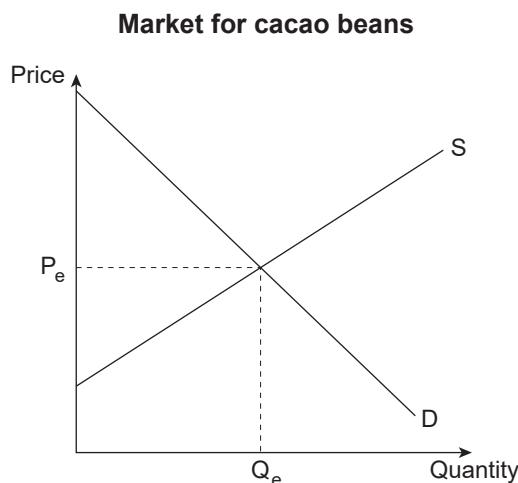


1. *Refer to the following information.*

Cacao bean prices have changed across the past year due to weather disruptions and environment-related diseases that have infected cacao tree plantations.

(a) Explain the effects of weather disruptions and environment-related diseases on the market for cacao beans.

Complete the diagram below to support your answer.



(3 marks)

Additional information

From a fully grown cacao tree, beans can be harvested at different times throughout the year and stored for years. These factors result in the price elasticity of supply (PES) for cacao beans having a coefficient of 1.2.

(b) (i) Interpret the meaning of the price elasticity of supply (PES) coefficient of 1.2.

(1 mark)

(ii) With reference to one determinant of PES, justify why the coefficient for cacao beans would equal 1.2.

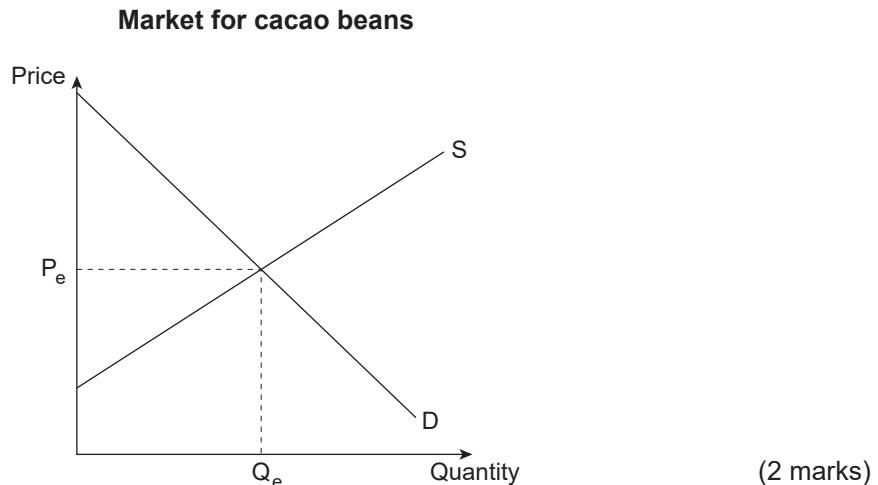
(2 marks)

Additional information

The government of Country X is considering implementing a price floor to increasing the income of cacao bean farmers. The government has assured the farmers that they will act to restore any imbalances between supply and demand in the market that may occur as a result of the intervention.

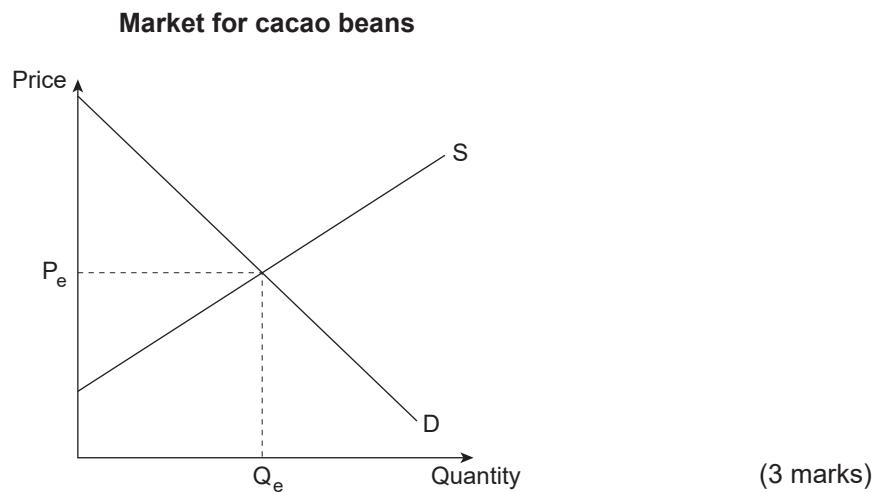
Consumer advocates argue that a government-imposed price floor will be less effective than a producer subsidy in assisting farmers. They claim that a price floor would have more negative consequences than a producer subsidy.

(c) (i) Complete the diagram below to show the effect of a price floor on the market for cacao beans.



(ii) Complete the diagram below to illustrate the effects of a producer subsidy on the market for cacao beans.

Clearly identify the area that represents the consumer surplus after the payment of the subsidy.



(d) Compare and contrast the effects of a price floor and a producer subsidy on consumers and producers in the market for cacao beans.

Additional information

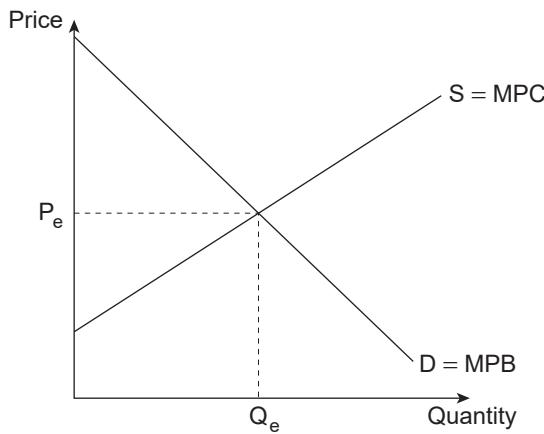
Economists are concerned about the negative environmental effects of cacao bean production. Cacao bean farming can result in deforestation, loss of biodiversity, soil degradation, and harm to water ecosystems.

(e) (i) Justify the type of market failure that exists in the market for cacao beans.

_____ (2 marks)

(ii) Complete the diagram below to illustrate the market failure discussed in part (e)(i).

Market for cacao beans

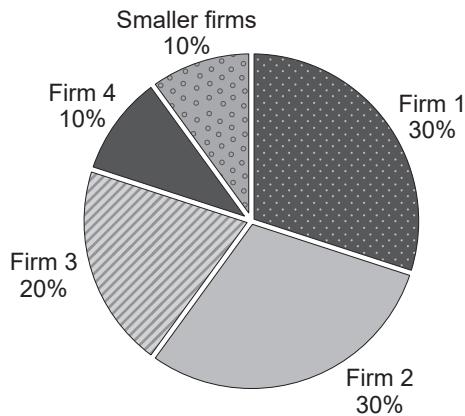


(2 marks)

2. *Refer to the following information.*

Graph 1 shows the market shares of chocolate producers in Country X. Each of the four largest firms have strong distribution networks, strong brand recognition, and large technologically advanced factories. Economists believe that these four firms are using their substantial market power to increase prices paid by retailers.

Graph 1: Market shares of chocolate producers

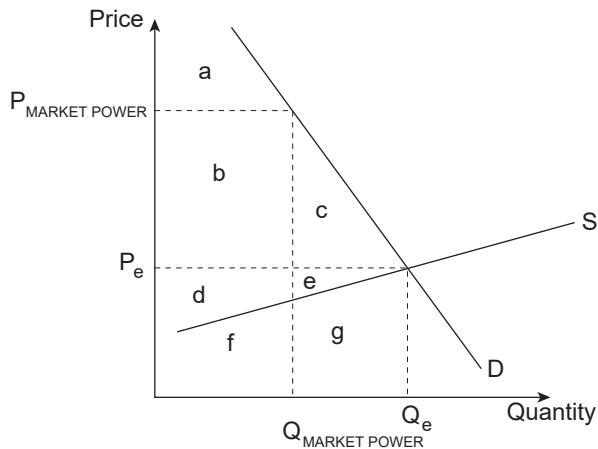


(a) (i) Justify the likely market structure of chocolate production.

(3 merke)

(ii) Assess the extent to which the market structure identified in part (a)(i) meets the needs of chocolate producers.

(b) The diagram below shows the impact of chocolate producers using their market power to set the price.



(i) Explain why the producer surplus of chocolate producers will increase if they utilise their market power and increase price from P_e to $P_{\text{MARKET POWER}}$.

(2 marks)

(ii) Referring to the diagram in part (b), identify the area of dead weight loss (DWL) if firms utilise their market power and increase price from P_e to $P_{\text{MARKET POWER}}$.

(1 mark)

3. Refer to the following information.

In the retail market for chocolate, the milk chocolate bar is a popular and relatively inexpensive consumer good. However, consumers are becoming more health conscious, creating a growing market for 'dark chocolate', which is low in sugar. Bars of dark chocolate have become a closer substitute to the milk chocolate bar.

(a) Analyse how the changing market conditions in the retail market for chocolate have likely affected the price elasticity of demand (PED) for milk chocolate bars.

(2 marks)

Additional information

The retail market for chocolate in Country X is dominated by two supermarkets, supermarket 1 and supermarket 2. These firms have a combined market share of 75%.

To increase profit, both supermarkets are considering expanding the range of dark chocolate bars available.

The payoff matrix below shows the profits (in millions) each supermarket can make when it chooses between the strategies of:

- Expanding range of dark chocolate
- Not expanding range of dark chocolate

		Supermarket 2	
		Expanding range of dark chocolate	Not expanding range of dark chocolate
Supermarket 1	Expanding range of dark chocolate	5	2
	Not expanding range of dark chocolate	8	6

(b) (i) Using data from the payoff matrix above, explain why both supermarkets choosing the strategy of 'Not expanding range of dark chocolate' cannot be the Nash equilibrium in the payoff matrix above.

(2 marks)

(ii) Explain how the payoff matrix on page 9 reflects the concept of interdependence.

(2 marks)

_____ (2 marks)

(c) Evaluate the extent to which the market structure for chocolate retailing meets the needs of consumers.

_____ (4 marks)

You may write on this page if you need more space to finish your answers to any of the questions in this question booklet. Make sure to label each answer carefully (e.g. 2(b)(i) continued).





South Australian
Certificate of Education

Economics

2025

Question booklet 2

- Questions 4 and 5 (42 marks)
- Answer **all** questions
- Write your answers in this question booklet
- You may write on page 11 if you need more space
- Allow approximately 65 minutes

2

© SACE Board of South Australia 2025

Copy the information from your SACE label here

SEQ

FIGURES

--	--	--	--	--	--

CHECK
LETTER

BIN



Government
of South Australia

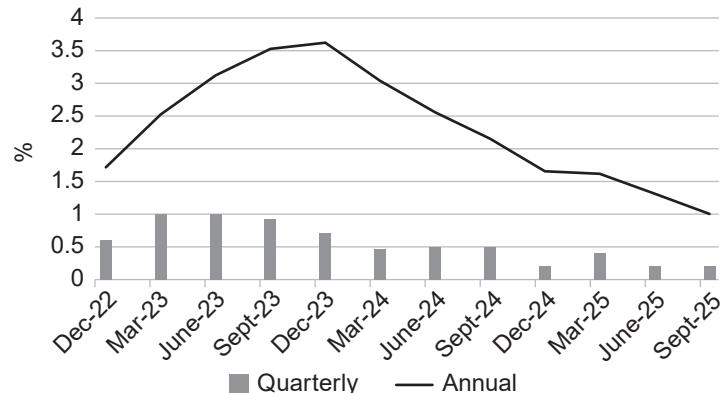
4. Refer to the following information.

An inquiry into economic growth in Country T was recently completed. Two main conclusions from the inquiry are listed below:

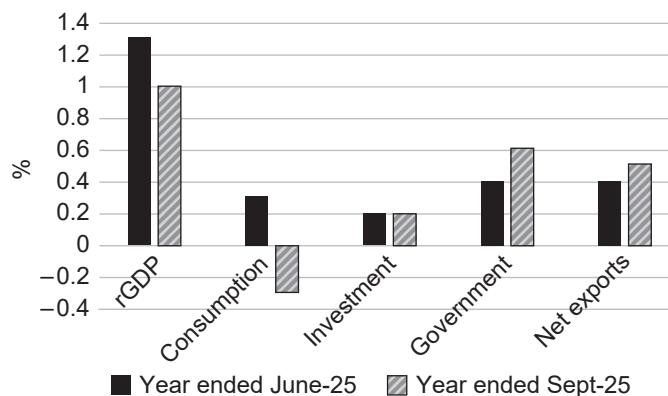
- Changes in real GDP (rGDP) indicate Country T is in a downturn in 2025 and there is a possibility of a recession in 2026.
- A decrease in the marginal propensity to consume (mpc) in Country T over the past 12 months would reduce the effectiveness of fiscal policy in avoiding a recession.

Data used to support the inquiry's conclusions are included in Graphs 2, 3, and 4.

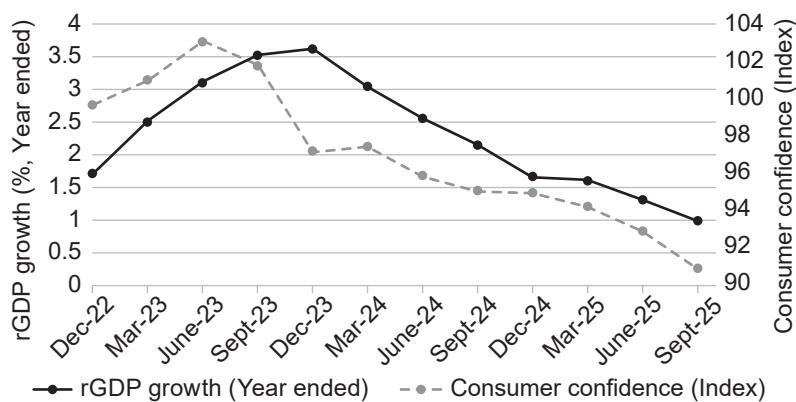
Graph 2: rGDP Growth – quarterly and annual



Graph 3: Contributions to annual rGDP



Graph 4: Real gross domestic product (rGDP) v. consumer confidence



R^2 of rGDP and consumer confidence = 0.513

(a) (i) Outline *one* method used to calculate GDP.

(1 mark)

(ii) Explain *one* possible limitation of changes in GDP as a measurement of economic growth.

(2 marks)

(b) Outline how Graph 2 on page 2 could support the conclusion that Country T is experiencing a downturn rather than a recession.

(2 marks)

(c) (i) Identify which *sector* of the economy contributed negatively to rGDP growth in the Year ended Sept-25 with reference to Graph 3.

(1 mark)

(ii) Analyse why rGDP growth has remained positive for the Year ended Sept-25 despite the negative contribution of the sector identified in part (c)(i).

(2 marks)

(d) (i) State the direction of the correlation between consumer confidence and rGDP growth shown in Graph 4 on page 2.

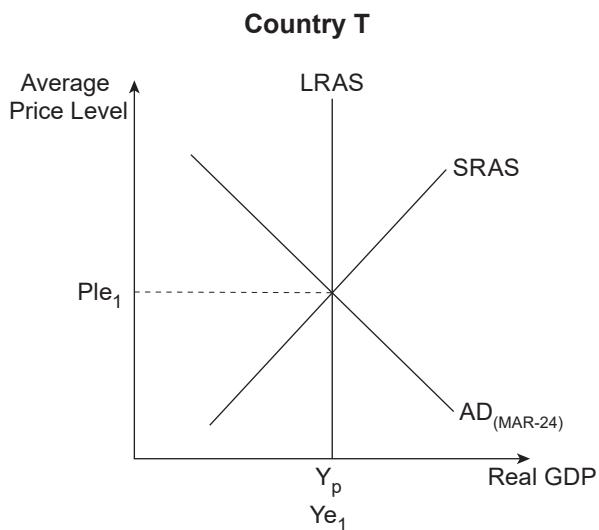
(1 mark)

(ii) Explain the meaning of the R^2 coefficient of 0.513 between rGDP and consumer confidence.

_____ (2 marks)

(iii) Explain how the change in consumer confidence between Mar-24 and Sept-25 is likely to have affected aggregate demand (AD).

Complete the model below to support your answer.



(3 marks)

(e) (i) With reference to leakages and injections in the circular flow model, explain how fiscal policy could assist in avoiding a recession.

(ii) Assess the claim that a decrease in the marginal propensity to consume (mpc) would reduce the effectiveness of fiscal policy.

Refer to the expenditure multiplier in your answer.

_____ (4 marks)

5. Refer to the following information.

In recent years, Country M, has faced significant macroeconomic challenges, including persistently high inflation which has resulted in a decline in living standards. Table 1 below shows data on three factors that contributed to very high inflation, which has exceeded 10% in some years.

Economists claim that the country's high level of inflation, which exceeds its trading partners, has been a significant driver of a depreciation in Country M's currency, the dollar. However, there are conflicting views on whether the depreciation of the dollar will be positive or negative for employment in Country M.

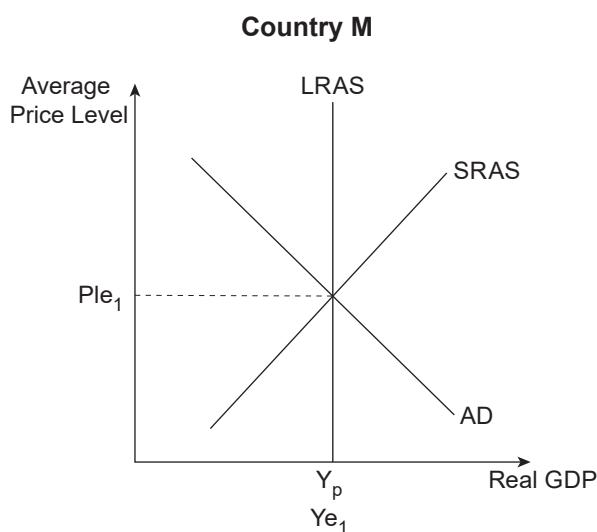
Table 1: Annual growth in select factors affecting inflation

	2023	2024	2025
Productivity	0.9%	0.3%	0.1%
Electricity price	4.5%	7.2%	11.0%
Minimum wage	3%	3%	6%

(a) Referring to the data in Table 1, justify the type of inflation most likely experienced by Country M between 2023 and 2025.

(2 marks)

(b) On the AD-AS diagram below, illustrate the type of inflation that you justified in part (a).



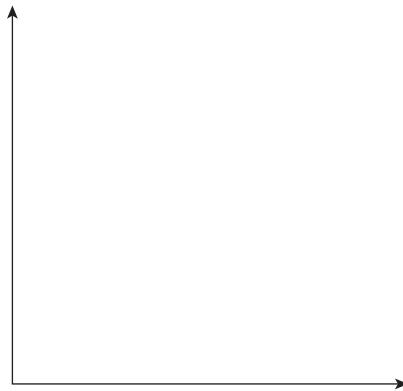
(2 marks)

(c) Explain how inflation exceeding 10% may have contributed to declining living standards in Country M.

(2 marks)

(d) (i) On the diagram below, illustrate how high inflation is likely to impact *both* the demand and supply of Country M's dollar. Fully label the diagram.

Market for Country M's dollar



(3 marks)

(ii) Justify the change in demand for Country M's dollar illustrated in part (d)(i).

(2 marks)

Additional information

The central bank in Country M has raised official interest rates to address high inflation. However, this has created a conflict between lowering inflation and maintaining full employment.

Some economists have suggested using supply-side policies to help reduce inflation. They argue that domestic inefficiencies, such as high production costs and regulatory requirements, act as barriers that prevent firms from lowering prices.

(e) Explain two reasons why raising official interest rates may affect aggregate demand through changes in consumption.

_____ (3 marks)

(f) Explain why contractionary monetary policy may create a conflict between attaining the macroeconomic objectives of price stability and full employment.

(2 marks)

(g) Evaluate the effectiveness of *one* supply-side policy that might be used to address high inflation.

_____ (4 marks)

You may write on this page if you need more space to finish your answers to any of the questions in this question booklet. Make sure to label each answer carefully (e.g. 5(d)(ii) continued).

