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# Course Overview

## What's it all about?

### Allocative Efficiency!

Economics is the study of allocative efficiency. How can societies make the best technical use of resources to best meet the wants and needs of their citizens? How do economies decide what goods and services are wanted and then, how do they ensure that resources are most efficiently used to produce those goods and services?

There are four standards to the Level 3 NCEA Economics course:

#### **90629 Individual Decision Making**

This looks at individuals and individual firms, the types of decisions they make and how they make these decisions.

#### **90630 The Market**

This looks at the economic problem and how individuals come together in various markets and interact to meet the wants and needs of consumers. It examines how the free market reaches equilibrium and responds to change to achieve allocative efficiency.

#### **90631 Market Failure**

This looks at how and why markets sometimes fail to achieve allocative efficiency and how the government may intervene in markets to make them successful or to prevent undesirable outcomes.

#### **90632 Macroeconomics**

This looks at the New Zealand economy as a whole and how the various sectors interact to achieve long-term sustainable economic growth.

You will notice a progression in the content of the standards from the analysis of individuals (microeconomics) through markets up to the economy as a whole (macroeconomics). Through this content, the goal of this course is to develop your . . .

#### **Thinking Skills**

The ability to bring ideas together and develop an effective argument (e.g. to describe and resolve a problem or analyse a proposal).

#### **Communication Skills**

The ability to clearly articulate your thinking – in writing, using statistics and with graphs.

#### **Economic Knowledge**

This includes common economic terms and concepts and also up-to-date economic statistics and general knowledge.

By the end of the course you should be familiar with the market model, as one solution to the economic problem. Most importantly you will learn to think and communicate effectively. Hopefully you'll also learn some aspects of the New Zealand economy along the way.

# How to Use this Book

## Student Review Sheets

At the start of each unit is a summary of the content in that unit. As you go through the unit or when you revise it, tick the appropriate box on the right of the table to check your understanding.

This page also details the relevant achievement criteria for this unit and also the key content from the achievement standard.

Finally, it has some space for you to write some questions about further information you need to gather or questions that you need to ask.

Write these questions down and make sure you ask your teacher to answer them or point you to where you can find the answers.

Unit Content:		Understanding		
		1 <i>(poor)</i>	2	3 <i>(good)</i>
1.	Price Elasticity of Demand			✓
	• describe price elasticity of demand ( $P_{e_D}$ )	✓		
	• compare revenue to determine elasticity			✓
	• calculate the coefficient of $P_{e_D}$		✓	

## Notes

The notes pages have been set up with some space on the outside margin for you to write your own notes. It's a good idea to write the key ideas here. This will help you to find information quickly when you come back to revise. You can also write some extra ideas or information that you discuss in class.

### Describe Price Elasticity of Demand

Imagine you own a local shop that sells goods for \$10 each. Each day you sell 100 goods earning you \$1 000 revenue each day. If you drop your price by \$1, you will increase your sales. Should you drop your price?

It depends! You will sell more but you will earn less per sale. The question you must answer is . . . will the increase in sales be greater than the income you lose on existing sales?

Let's assume that dropping the price by \$1 would increase sales by 5% each day. The table below shows the overall impact of this on revenue.

elasticity

$$\Delta P \rightarrow \Delta Q_D$$

## Exercises and Revision Activities

After each set of notes, there are relevant exercises and revision activities. Do these as you work through the course. They are also an excellent way to revise for tests and exams toward the end of the year.

## Multiple Choice and Glossary

In NCEA there are no multiple choice questions. However these questions are a good way of checking your understanding. The glossary is also another way of checking your understanding. Make sure that as well as being able to give an exact definition of a word or phrase, you can also use it in context. In some cases (e.g. price elasticity of demand), make sure that you know the relevant formula.

# Book 1 Overview

## Overview

This book combines two standards – 90629 and 90630. It focuses on how individuals make decisions about production and consumption (90629) and about how this comes together in the marketplace (90630). It examines the market as a way of allocating resources (to produce what consumers demand) and hopefully, achieve allocative efficiency.

The main themes in these two standards are:

### **The Economic Problem** (Unit 1)

The fundamental economic problem facing society is that there are insufficient resources to meet people's wants and needs. We will never fully resolve the economic problem, so therefore our concern is that we achieve allocative efficiency. Allocative efficiency occurs when we use all available resources as best technically possible to meet the wants and needs of society.

### **Individual Decision-Making** (Units 2-4, 6-7)

Individual consumers and producers are at the core of market economics. We need to look at how they make decisions and how we represent this graphically. These concepts and skills provide the building blocks for more complex economic analysis.

### **Market Equilibrium** (Unit 5)

How do free markets work to resolve the economic problem? How do they bring together buyers and sellers to allocate resources to the production of goods and services demanded by consumers. This part of the course looks at how markets achieve allocative efficiency, by getting producers to use scarce resources to produce what consumers demand.

### **Market Structures** (Units 6-8)

These units look at the different types of markets that can exist and how each type of market affects the behaviour of individual consumers and producers.

### **Specific Market Situations** (Unit 9)

This unit looks at specific markets (labour and international trade) to apply the analytical skills learned earlier in *Book 1*.

## What's Next?

In **Book 2** (90631) we will look at why the market is not a perfect solution to achieving allocative efficiency. Occasionally circumstances prevent the market from working properly and the government needs to intervene to correct these imperfections. Or the market may be overly successful and the government needs to correct the outcomes that result.

In **Book 3** (90632) we will look at the economy as a whole, i.e. macroeconomics. We take the analytical tools developed in **Books 1** and **2**, and apply them to the whole economy. Whereas the first two books look at the behaviour of individuals and how individual markets work, **Book 3** examines the large sectors of the economy that include many sub-markets. This helps us to analyse economic events and policies, and predict their effect on the economy.

# The Standards

## Achievement Criteria

90629: Understand marginal analysis and the behaviour of firms		
Achieved	Merit	Excellence
<ul style="list-style-type: none"> <li>• <b>Describe</b> the behaviour of firms and the different markets in which they operate.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Describe</b> the behaviour of firms and the different markets in which they operate.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Describe</b> the behaviour of firms and the different markets in which they operate.</li> </ul>
<ul style="list-style-type: none"> <li>• <b>Recognise</b> marginal concepts that relate to supply and demand.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Use</b> marginal analysis to derive the supply or demand curve.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Use</b> marginal analysis to derive supply and demand curves.</li> </ul>
<ul style="list-style-type: none"> <li>• <b>Use</b> marginal analysis to <b>recognise</b> equilibrium for the perfectly competitive firm and the monopolist.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Use</b> marginal analysis to <b>explain</b> equilibrium for the perfectly competitive firm and the monopolist in different markets.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Use</b> marginal analysis to <b>fully explain</b> changes in output and pricing decisions for the perfectly competitive firm and the monopolist in different markets.</li> </ul>

## Notes

### Definitions:

- **Describe** means to give details about, an account of, relate, demonstrate knowledge of; students may give descriptions in words, diagrams, flow charts, graphs or other similar devices.
- **Explain** means to identify a key idea and to say why or how, give reasons for, predict, interpret, compare, distinguish in the context given.
- **Fully explain** means to explain in depth and/or breadth.

### Use of Marginal Analysis:

Use of marginal analysis for achievement with excellence will involve a further selection from:

- a thorough understanding of the application of marginal analysis to explain changes in a given situation.
- a full discussion of the application of marginal analysis to explain changes in the short- and long-run.

## Achievement Criteria

90630: Describe an economic problem, allocative efficiency and market responses to change		
Achieved	Merit	Excellence
<ul style="list-style-type: none"> <li>• <b>Describe</b> the economic problem.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Describe</b> the economic problem.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Describe</b> the economic problem.</li> </ul>
<ul style="list-style-type: none"> <li>• <b>Describe</b> allocative efficiency.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Describe</b> the effect of a change in the market on allocative efficiency.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Describe</b> the effect of a change in the market on allocative efficiency.</li> </ul>
<ul style="list-style-type: none"> <li>• <b>Describe</b> market responses to change.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Explain</b> market responses to change.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Fully explain</b> different markets' responses to changes.</li> </ul>

## Notes

### Definitions:

- **Describe** means to give details about, an account of, relate, demonstrate knowledge of; students may give descriptions in words, diagrams, flow charts, graphs or other similar devices.
- **Explain** means to identify a key idea and to say why or how, give reasons for, predict, interpret, compare, distinguish in the context given.
- **Fully explain** means to explain in depth and/or breadth.

### Market Responses to Changes:

When fully explaining how different markets respond to changes a further selection will be made from:

- the effects on all participants in the market, e.g. consumers, producers, government.
- a full analysis, using supply and demand, of the impact on all of the different markets associated with the change.