



2011 ECONOMICS

**FOR OFFICE
USE ONLY**

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**ATTACH SACE REGISTRATION NUMBER LABEL
TO THIS BOX**

Thursday 10 November: 1.30 p.m.

Time: 2 hours

Pages: 12
Questions: 7

Examination material: one 12-page question booklet
one 8-page script book
one SACE registration number label

Approved dictionaries may be used.

Instructions to Students

1. You will have 10 minutes to read the paper. You must not write in your question booklet or script book during this reading time but you may make notes on the scribbling paper provided.
2. This paper is in two parts:
Part A (Questions 1 to 4)
Answer **all parts** of Questions 1 to 4 in the spaces provided in this question booklet.
Part B (Questions 5 to 7)
Answer **one** essay question from this part. Write your answer in the separate script book.
3. The allocation of marks is as follows:

Part A	45 marks
Part B	20 marks
Total	65 marks
4. Attach your SACE registration number label to the box at the top of this page. Copy the information from your SACE registration number label into the box on the front cover of your script book.
5. At the end of the examination, place your script book inside the back cover of this question booklet.

PART A (Questions 1 to 4)

(45 marks)

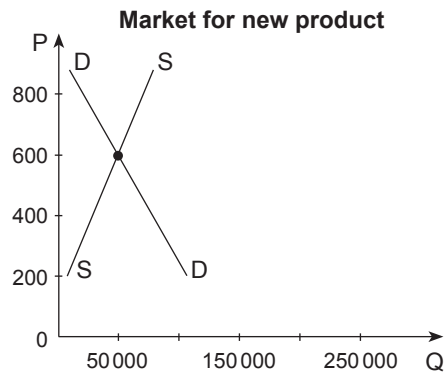
Answer **all** parts of Questions 1 to 4.

Write your answers in the spaces provided for each question. The allocation of marks is shown in brackets at the end of each part of each question.

1. Refer to the following table, which shows demand and supply information for a new product.

	Equilibrium Price	Equilibrium Quantity
Year 1	\$600	50 000 per year
Year 2	\$400	250 000 per year

(a) (i) The diagram below shows demand and supply conditions in Year 1. Indicate on the diagram the demand and supply conditions in Year 2.



(1 mark)

(ii) Give *two* reasons for the change in market conditions you have shown in part (a)(i).

Reason 1: _____

Reason 2: _____

_____ (2 marks)

(iii) Describe how the change in market conditions from Year 1 to Year 2 you indicated in part (a)(i) will influence the answer to the question 'for whom are goods and services produced?' in this economy.

_____ (1 mark)

- (b) In economic theory, which *one* of the following types of market economic system is most likely to exhibit innovation and flexibility that lead to the development of new products?
Tick the appropriate box.

Planned economies

Market economies

Economies in transition

Traditional economies

(1 mark)

2. Refer to the following article.

Markets in Practice — The Restaurant Industry

The number of restaurants in cities has grown in recent years as consumer tastes, lifestyles, and incomes change.

A feature of the restaurant industry is that businesses enter and exit frequently. Successful restaurants are able to build customer loyalty, and benefit from customer recommendations. Consumers who wish to eat at some of the more successful restaurants often need to reserve a table weeks in advance. The popularity of some restaurants has allowed their owners to increase prices.

Although the market generally performs well, government intervention can help to fully meet the needs of both consumers and producers and to redress market failure.

(a) (i) Identify the most likely market structure of the restaurant industry.

_____ (1 mark)

(ii) Justify your answer to part (a)(i).

_____ (1 mark)

(iii) State how the market structure you identified in part (a)(i) may meet the needs of:

(1) consumers.

_____ (1 mark)

(2) producers.

_____ (1 mark)

(b) (i) Explain how a restaurant's success in building customer loyalty may affect the price elasticity of demand for a meal at that restaurant.

_____ (2 marks)

(ii) Explain how a knowledge of the price elasticity of demand for a restaurant meal could help restaurant owners to decide whether to increase prices.

_____ (2 marks)

(c) Which *one* of the following would be the most likely barrier to entering the restaurant industry? Tick the appropriate box.

High level of market concentration

Anti-competitive behaviour of rival businesses

Advertising costs associated with establishing a new business

High research and development costs

(1 mark)

(d) (i) Identify *one* type of market failure that could be associated with the restaurant industry.

_____ (1 mark)

(ii) Identify and explain *one* type of government intervention that could redress market failure of the type you identified in part (d)(i).

Type of intervention: _____

Explanation: _____

_____ (2 marks)

3. Refer to the following article.

External balance — different concerns

Country A is a net importer of commodities, while Country B is a net exporter of commodities, and both countries are experiencing contrasting balance of payments issues. In recent years Country A has experienced consistent current account surpluses and Country B has experienced consistent current account deficits. Country A has been accused of fixing its currency at too low a level, to maintain a balance of trade surplus. Government officials from Country A have responded by arguing that an appreciation of its currency would have negative economic consequences not only for its own economy but also for the economies of countries from which it imports and to which it exports.

External balance statistics for Country A and Country B are given below.

Statistic	Country A	Country B
Balance on goods and services	\$8 bn surplus	\$2.4 bn surplus
Current account balance as a percentage of GDP	8%	-3.4%
Exchange rate	Fixed	Floating

- (a) Explain the discrepancy between Country B's current account balance as a percentage of GDP and Country B's balance on goods and services.

(2 marks)

- (b) Describe *one* possible negative and *one* possible positive effect of a current account deficit.

Negative: _____
_____ (1 mark)

Positive: _____
_____ (1 mark)

4. Refer to the table below, which shows changes to indicators of economic performance for a country over a 12-month period.

<i>Indicator</i>	<i>Change</i>
Dwelling approvals	Down by 12%
New car sales	Down by 5%
Household savings ratio	Up by 5%
Consumer sentiment	Down for 12 successive months
Business investment	Up by 2%
Job vacancies	Down by 2%

- (a) (i) Identify *one* coincident indicator shown in the table above.

_____ (1 mark)

- (ii) With reference to the table above, explain the likely impact of the changes in the leading indicators on aggregate demand in this country in the next period.

_____ (2 marks)

- (b) (i) Define the term 'investment'.

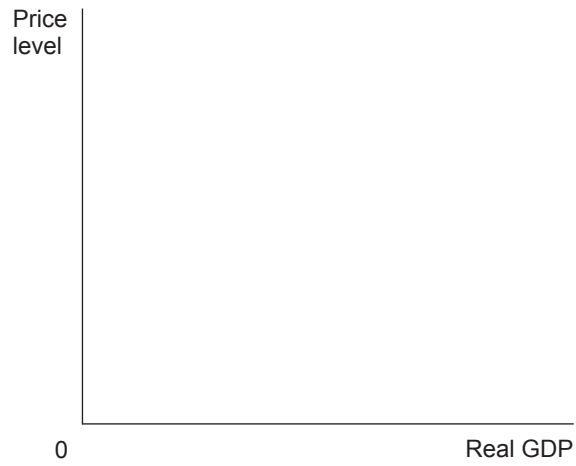
_____ (1 mark)

- (ii) Explain how an increase in business investment can affect productivity of labour.

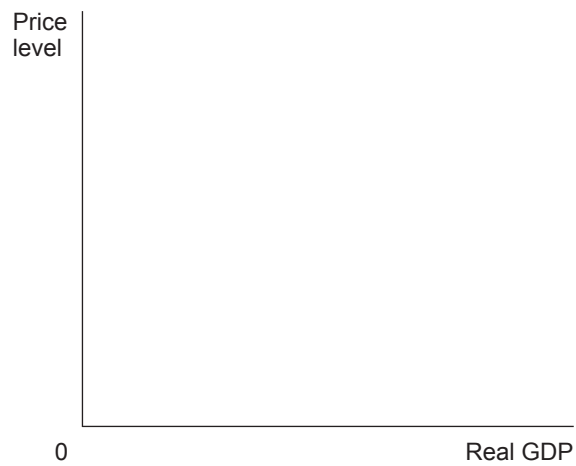
_____ (2 marks)

(iii) By completing the aggregate demand – aggregate supply diagrams below, show how the change in productivity of labour you explained in part (b)(ii) would affect:

(1) short-run aggregate supply.



(2) long-run aggregate supply.

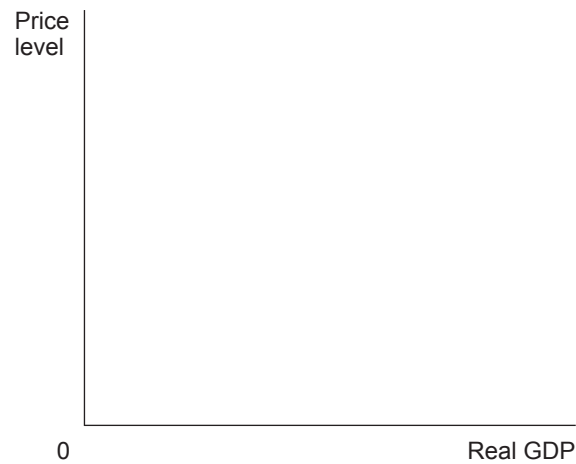


(2 marks)

- (c) (i) Using the information for the 12-month period shown in the table on page 8, explain how consumption expenditure in this economy is likely to have changed over this period.

(2 marks)

- (ii) Discuss how the change in consumption expenditure you explained in part (c)(i) may affect the achievement of the macroeconomic objective of full employment. Complete the aggregate demand – aggregate supply diagram to support your answer.



(3 marks)

PART B (Questions 5 to 7)

(20 marks)

Answer **one** essay question from Questions 5 to 7.

Whenever appropriate, you should supplement your answers with suitable diagrams.

Write your answer in the separate script book provided. Write the number of the question you choose in the appropriate box on the front cover of the script book.

5. 'Many countries choose to use demand management policies in response to a major downturn, such as the Global Financial Crisis, but long-term economic management should also include supply management policies.'

Evaluate this statement with reference to examples. (20 marks)

6. 'The arguments for free trade outweigh the arguments for protection.'

Evaluate this statement with reference to examples. (20 marks)

7. 'The implementation and impact lags of economic policy are more important than the other problems that government may experience when implementing economic policy.'

Evaluate this statement with reference to examples. (20 marks)