2013 ECONOMICS

ATTACH SACE REGISTRATION NUMBER LABEL
TO THIS BOX

Monday 18 November: 1.30 p.m.

Time: 2 hours

Pages: 11
Questions: 7

Examination material: one 11-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.

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 information.*

> ### The Features of Market Structures
>
> All market structures can be classified according to their specific features. Regardless of the structure of the market, there will always be some type of market failure, such as negative externalities.

(a) Define the term 'barrier to entry'.

_____ (1 mark)

(b) How do barriers to entry vary according to the market structure?

_____

_____ (1 mark)

(c) How does a firm's tendency to develop technological innovation vary according to the market structure?

_____

_____ (1 mark)

(d) Define the term 'price elasticity of demand'.

_____

_____ (1 mark)

(e) Explain how the price elasticity of demand differs when a firm is operating under a perfectly competitive, as opposed to a monopoly, market structure.

_____

_____

_____

_____ (2 marks)

(f) (i) Give an example of a negative externality.

_____ (1 mark)

(ii) In what way is the example you gave in part (f)(i) a type of market failure?

_____

_____

_____ (1 mark)

(iii) State *one* measure to redress the example of a negative externality you gave in part (f)(i).

_____ (1 mark)

(iv) Outline how this measure would redress this negative externality.

_____

_____

_____ (1 mark)

2. *Refer to the following table.*

> ### Budget Surplus Delayed
>
> A government spokesperson has said that, although the government had previously forecast a budget surplus for 2013/2014, it would not be economically responsible to continue to aim for this, given current economic conditions. The table below shows data for this economy since the 2011/2012 financial year.
>
> | Measure | 2011/2012 | 2012/2013 |
> |---|---|---|
> | Real GDP growth (%) | 0.5 | 1.5 |
> | Budget balance ($billion) | −12.2 | −8.4 |

(a) Outline *one* method of calculating *real* GDP.

_____

_____

_____

_____ (2 marks)

(b) Identify *one* negative effect of low economic growth.

_____

_____ (1 mark)

(c) Describe the effect of:

   (i) a change in the budget balance on the rate of economic growth.

   _____

   _____

   _____ (1 mark)

   (ii) a change in the rate of economic growth on the budget balance.

   _____

   _____

   _____ (1 mark)

(d) Explain *one* potential benefit and *one* potential cost if a budget surplus is not achieved in 2013/2014.

(i) Potential benefit:

_____

_____

_____

_____ (2 marks)

(ii) Potential cost:

_____

_____

_____

_____ (2 marks)

(e) The government used leading indicators to help it make economic forecasts for 2013/2014.

(i) Name *one* leading indicator that the government may have used in making its economic forecasts for 2013/2014.

_____

_____ (1 mark)

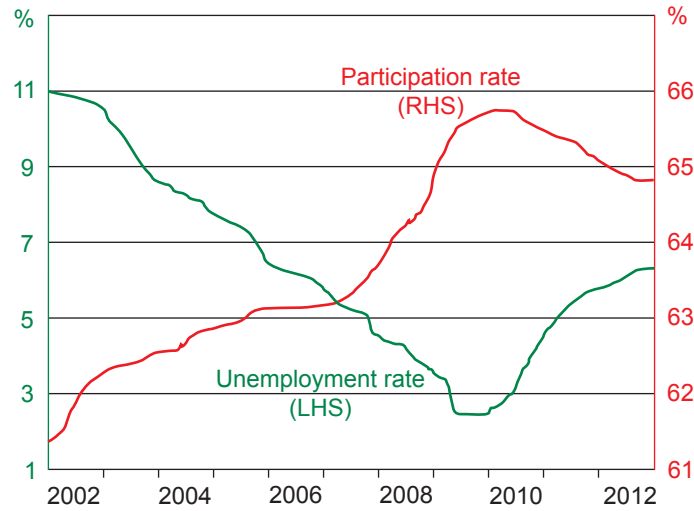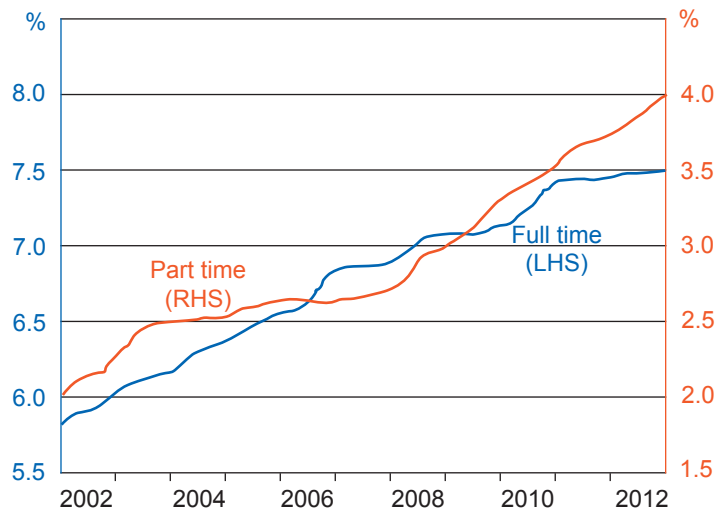(ii) State *one* limitation of this indicator in economic forecasting.

_____

_____ (1 mark)

3. *Refer to the following graphs, which relate to the labour force for an economy over a period of time.*

Graph 1: Unemployment and labour force participation rates (% change)

Graph 2: Full-time and part-time employment (% change)

(a) Which *one* of the following best defines the labour force participation rate? Tick the appropriate box.

The labour force participation rate is defined as the percentage of people of working age who are:

actively seeking work ☐

employed for their desired number of hours ☐

employed ☐

employed or unemployed ☐

(1 mark)

6

(b) State the relationship between the unemployment and labour force participation rates shown in Graph 1 on page 6.

_____ (1 mark)

(c) (i) Identify *one* employment trend shown in Graph 1 on page 6.

_____ (1 mark)

(ii) Describe how the employment trend you identified in part (c)(i) affects the 'For whom to produce?' question.

_____

_____ (1 mark)

(d) 'The percentage change in part-time employment is lower than the percentage change in full-time employment for the whole period between 2002 and 2012.' Explain how the data in Graph 2 on page 6 supports or contradicts this statement.

_____

_____

_____

_____ (2 marks)

(e) (i) Define the term 'hidden unemployment'.

_____

_____ (1 mark)

(ii) Describe how hidden unemployment may affect the unemployment rate.

_____

_____

_____ (1 mark)

(iii) Define the term 'underemployment'.

_____

_____ (1 mark)

(iv) Describe how underemployment may affect the unemployment rate.

_____

_____

_____ (1 mark)

4. *Refer to the following information.*

International Finance Conference

At an international finance conference, economists have presented evidence that Country A has intervened in the foreign exchange market to increase economic growth, and that Country B has intervened in the foreign exchange market to reduce inflation. In Country A, the price stability objective has been achieved, while in Country B, the government has ordered a 6-month price freeze in response to ongoing high inflation. The following data relates to key indicators for both countries over the past year.
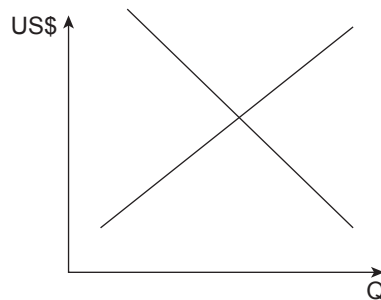
Indicator	Country A	Country B
Economic growth	Increased to 3.1%	Increased to 9.6%
Inflation rate	Fell to 1.9%	Increased to 20.6%
Unemployment rate	Remained steady at 7.2%	Fell to 4.4%

(a) (i) Outline how Country A may have intervened in the foreign exchange market to increase economic growth. Support your answer by completing the diagram below.

_____

_____

Foreign exchange market for Country A's currency

(2 marks)

(ii) Refer to the information for Country A. Which of the following best describes the change in economic activity in Country A after its intervention in the foreign exchange market? Tick the appropriate box.

Exchange rate intervention has enabled production in Country A to move from:

point B to point A ☐

point B to point C ☐

point B to point D ☐

point B to point E ☐

(1 mark)

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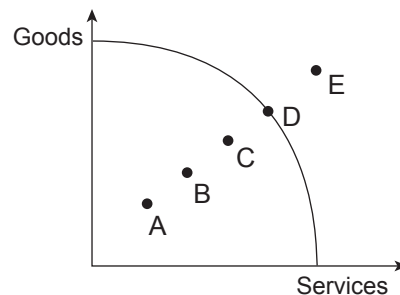
(b) (i) Refer to the information for Country B. Evaluate the effectiveness of a price freeze as a policy to reduce inflation. Support your answer with a demand and supply diagram.

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_____

_____
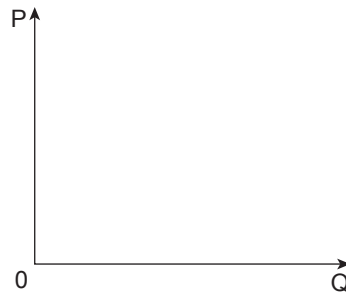
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0   Q

(3 marks)

(ii) Identify and explain a macroeconomic policy that Country B may use to help in the achievement of the price stability objective. Support your answer with an aggregate demand – aggregate supply diagram.
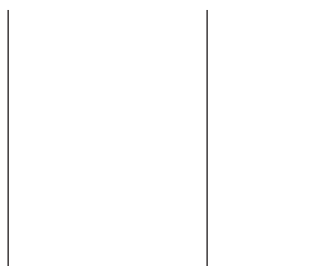
Policy: _____

Explanation: _____

_____

_____

_____

(3 marks)

9   PLEASE TURN OVER

(c) 'A rise or fall in a country's exchange rate, relative to those of its major trading partners, has both positive and negative effects.' Evaluate this statement with reference to both domestic and global contexts.

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_____ (5 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. 'Achieving equilibrium in both the circular-flow model and the AD/AS model does not guarantee that a government will attain its stated economic objectives.'

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

6. 'Economic decision-makers may find that the positive effects of involvement in international trade agreements on their country's internal economy outweigh the arguments against involvement in free trade.'

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

7. 'Different phases of the business cycle bring different problems for a government when implementing economic policy.'

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