



**Victorian Certificate of Education
2007**

SUPERVISOR TO ATTACH PROCESSING LABEL HERE

STUDENT NUMBER

Figures
Words

Letter

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**ECONOMICS
Written examination**

Friday 9 November 2007

**Reading time: 3.00 pm to 3.15 pm (15 minutes)
Writing time: 3.15 pm to 5.15 pm (2 hours)**

QUESTION AND ANSWER BOOK

Structure of book

<i>Section</i>	<i>Number of questions</i>	<i>Number of questions to be answered</i>	<i>Number of marks</i>
A	15	15	30
B	3	3	60
			Total 90

- Students are permitted to bring into the examination room: pens, pencils, highlighters, erasers, sharpeners and rulers.
 - Students are NOT permitted to bring into the examination room: blank sheets of paper and/or white out liquid/tape.
 - No calculator is allowed in this examination.
- Materials supplied**
- Question and answer book of 20 pages.
 - Answer sheet for multiple-choice questions.
 - Additional space is available at the end of the book if you need extra paper to complete an answer.
- Instructions**
- Write your **student number** in the space provided above on this page.
 - Check that your **name** and **student number** as printed on your answer sheet for multiple-choice questions are correct, **and** sign your name in the space provided to verify this.
 - All written responses must be in English.
- At the end of the examination**
- Place the answer sheet for multiple-choice questions inside the front cover of this book.

Students are NOT permitted to bring mobile phones and/or any other unauthorised electronic devices into the examination room.

SECTION A – Multiple-choice questions**Instructions for Section A**

Answer **all** questions in **pencil** on the answer sheet provided for multiple-choice questions.

Choose the response that is **correct** or that **best answers** the question.

A correct answer scores 2, an incorrect answer scores 0.

Marks will **not** be deducted for incorrect answers.

No marks will be given if more than one answer is completed for any question.

Question 1

Private Consumption Expenditure (C) in Australia is most likely to be increased by

- A. a decrease in consumer confidence.
- B. an increase in domestic interest rates.
- C. a drought across Australia.
- D. a decrease in marginal rates of income tax.

Question 2

What is labour productivity?

- A. the amount of output per hour worked
- B. the economy's potential to produce goods and services
- C. a resource that provides physical power and mental talents
- D. the output resulting from the input of all factors of production

Question 3

Oil is a close substitute for coal.

If the price of oil increases, then

- A. the supply curve for coal will shift to the right.
- B. the demand curve for coal will shift to the right.
- C. the equilibrium price and quantity of coal will not change.
- D. the quantity of coal demanded will decline.

Question 4

The true extent of unemployment in Australia may be greater than indicated by the measure of the unemployment rate provided by the Australian Bureau of Statistics (ABS).

This is because the measure

- A. only includes cyclical unemployment.
- B. does not include those who are seeking part-time work.
- C. does not include the unemployment of young people aged below twenty-one years.
- D. does not include those who may have been discouraged from actively seeking work.

Question 5

Which one of the following is **not** a feature of a competitive market?

- A. many buyers
- B. many sellers
- C. barriers to entry
- D. unregulated prices

Question 6

In response to rising oil prices, which would be the **least** likely to occur?

- A. more walking
- B. more air travel
- C. more use of public transport
- D. a relative increase in the demand for small cars

Question 7

A prolonged drought would be expected to

- A. have a positive effect on both the budget outcome and the current account deficit (CAD).
- B. have a positive effect on the budget outcome and a negative effect on the current account deficit (CAD).
- C. have a negative effect on the budget outcome and a positive effect on the current account deficit (CAD).
- D. have a negative effect on both the budget outcome and the current account deficit (CAD).

Question 8

The table below shows selected data for an economy that uses a floating exchange rate.

Balance of payments items	\$bn
Exports	120
Imports	130
Net services	10
Net income and current transfers	-30
Capital Account	8
Financial Account	22

The balance on current account for this economy is

- A. -\$50bn.
- B. -\$30bn.
- C. \$10bn.
- D. \$20bn.

Question 9

Which one of the following policy actions would be most likely to have a **different** effect on the labour force participation rate from the other three policy actions?

- A. raising the minimum school leaving age
- B. increasing the number of childcare places available
- C. removing the compulsory retirement age
- D. requiring single parents to work once their youngest child is at school

Question 10

The distribution of after-tax income between persons will become less equal as a result of which combination of the following circumstances?

- i. a decrease in the rate of unemployment
 - ii. a decrease in the top marginal income tax rate
 - iii. an increase in the Goods and Services Tax (GST)
 - iv. an increase in government spending on education and training programs
- A. ii. and iii.
B. i., ii. and iii.
C. iii. and iv.
D. i. and iv.

Question 11

Australia's company tax is an example of

- A. an indirect, proportional tax.
B. a direct, progressive tax.
C. a direct, proportional tax.
D. an indirect, regressive tax.

Question 12

Economists view pollution as an example of

- A. a public good.
B. an externality.
C. economies of scale.
D. the evils of monopoly.

Question 13

A possible weakness of budgetary (fiscal) policy in managing the Australian economy is that

- A. it only operates indirectly by influencing interest rates.
B. it cannot be used in a selective fashion to provide relief to particular sections of the economy.
C. it can be difficult for a government to change some tax and expenditure settings because of political considerations.
D. automatic stabilisers do not influence aggregate demand.

Question 14

A reason for the policy of microeconomic reform in Australia is to

- A. encourage imports into Australia.
B. allow governments to have more control over resource allocation.
C. protect Australian industries from foreign competition.
D. make Australian industries more internationally competitive.

Question 15

A contractionary monetary policy is likely to

- A. reduce the demand for labour by firms.
B. encourage capital outflow and weaken the value of the Australian dollar.
C. encourage spending and discourage saving.
D. reduce household disposable income and raise levels of aggregate demand.

END OF SECTION A

SECTION B – Written responses

Instructions for Section B
Answer **all** questions in **pen** in the spaces provided.

Question 1

- a. Describe the behaviour (trend) of the Australian inflation rate and the Reserve Bank of Australia’s (RBA) target for the cash interest rate during 2007.

2 marks

- b. Identify **two** influences on the behaviour of Australia’s inflation rate during 2007. Discuss how the RBA responded to each of these influences in setting its target for the cash interest rate.

Influence 1 _____

Influence 2 _____

6 marks

- c. Explain **two** ways in which tighter monetary policy may affect the achievement of price stability.

One _____

Two

6 marks

- d.** Discuss how the achievement of price stability may affect the achievement of **one** other economic objective.

4 marks

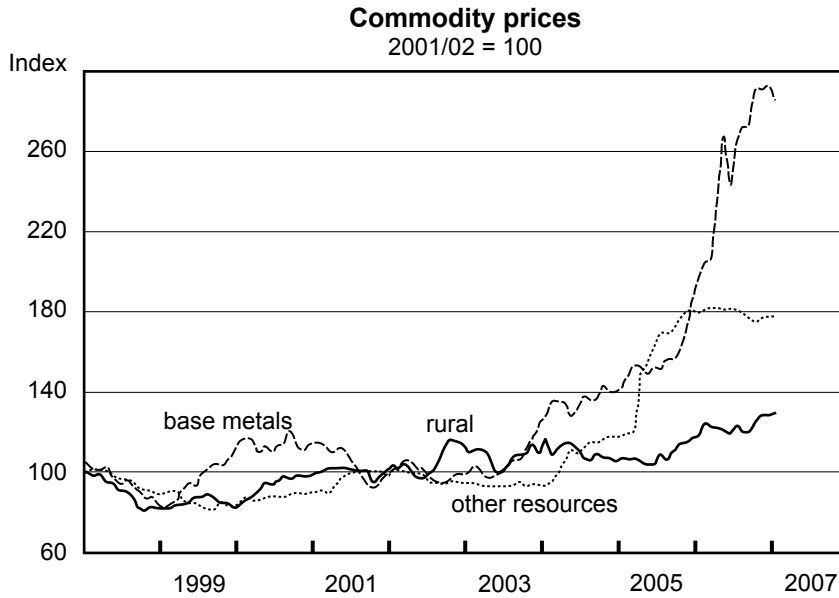
Total 18 marks

Question 2

‘The Australian economy has continued to benefit from strong global commodity prices.’

Reserve Bank of Australia Statement on Monetary Policy, February 2007

This can be observed in the following chart, which shows trends in commodity prices in recent years for base metals, rural commodities and other resources.



Source: Reserve Bank of Australia

- a. Explain how **one** demand factor and **one** supply factor may have contributed to the trend in commodity prices **since 2004** (as shown in the graph above).

One demand factor _____

One supply factor _____

4 marks

- b.** Examine how the trend in commodity prices **since 2004** (as shown in the graph on page 8) might have affected any **two** of the following Australian economic variables.
- i.** the current account in the balance of payments
 - ii.** the unemployment rate
 - iii.** equity in personal income distribution

4 marks

- c.** Define international competitiveness.

2 marks

- d. Explain **one** way that improved international competitiveness may affect the objective of external stability.

4 marks

- e. Explain how **two** microeconomic reform policies have been used over the past decade, or may be used in the future, to improve Australia’s economic efficiency and international competitiveness.

Policy one _____

Policy two _____

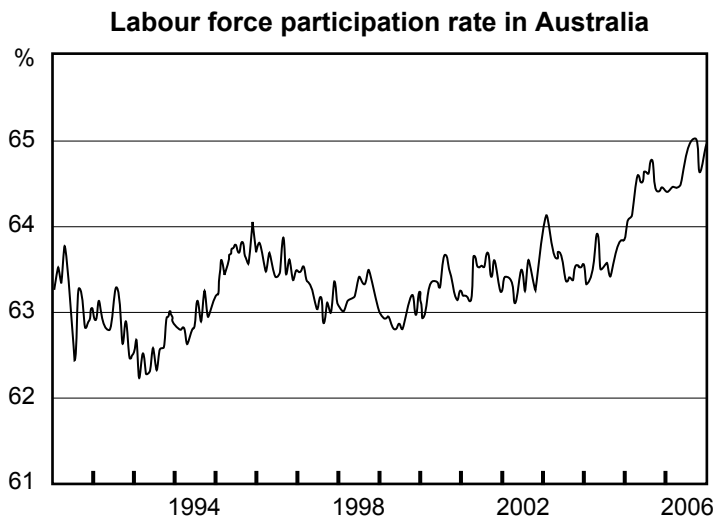
8 marks

Total 22 marks

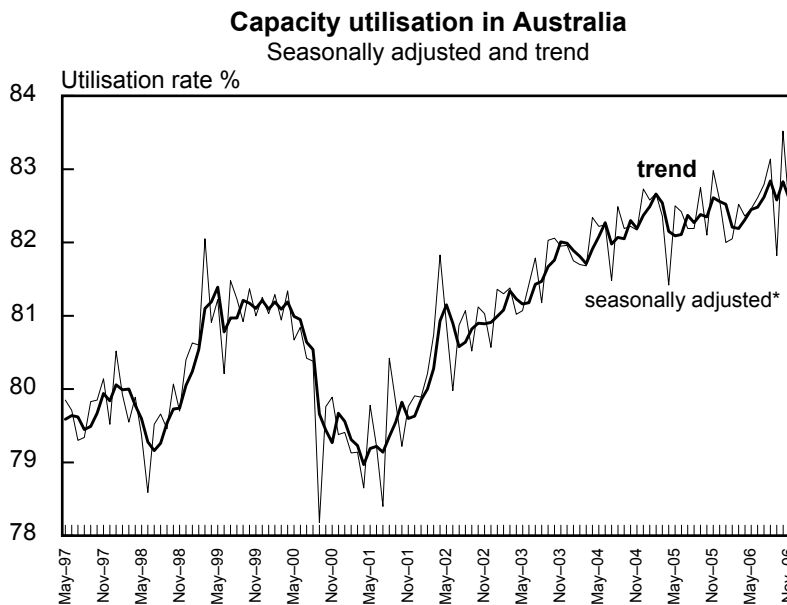
Question 3

- a. One of the Australian Government’s economic objectives is to achieve ‘strong and sustainable rates of economic growth’. Explain the meaning of this objective.

4 marks



Source: Reserve Bank of Australia



* Seasonally adjusted by NAB

Source: National Australia Bank

- b.** Explain how each of the following factors (trends graphed in charts on page 12) may have influenced rates of economic growth in Australia **since 2002**.
- i.** the labour force participation rate
 - ii.** capacity utilisation (the percentage of productive capacity being used)

6 marks

Table. Australia's current economic performance

Economic variable	2004–2005	2005–2006	2006–2007 estimates
GDP % increase chain volume measure	2.6	2.7	2.5
Unemployment rate (%)	5.3	5.1	4.75
Consumer Price Index % increase	2.4	3.2	2.75

Source: Australian Bureau of Statistics (ABS) and Australian Government Budget 2007–2008

- c. With reference to Australia's economic performance, evaluate the effectiveness of Australia's current macroeconomic policies in achieving the economic objectives of economic growth, price stability and full employment. (Note: current refers to the past three years.)

Extra space for responses**Clearly number all responses in this space.**
