



**Victorian Certificate of Education
2010**

SUPERVISOR TO ATTACH PROCESSING LABEL HERE

STUDENT NUMBER

Letter

Figures									
Words									

ECONOMICS
Written examination

Friday 5 November 2010

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	4	4	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 19 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

A period of expansion in the business cycle is most likely to occur when

- A. income tax rates are increased.
- B. government capital expenditure is increased.
- C. businesses lack confidence in future profit levels.
- D. banks fail to pass on reductions in the cash interest rate.

Question 2

Which of the following is **least** likely to result from the Reserve Bank of Australia (RBA) achieving an inflation rate of 2–3 per cent, on average, over the cycle?

- A. low unemployment
- B. stability of the currency
- C. sustainable economic growth
- D. a decrease in international competitiveness

Question 3

Which of the following statements provides the best definition of an efficient allocation of resources?

- A. the opportunity cost of the allocation of resources is zero
- B. resources are allocated so that productivity is rising at the maximum possible rate
- C. there is no alternative allocation of resources which will yield greater satisfaction to society
- D. resources are allocated so that maximum output is obtained from the available factors of production

Question 4

Which of the following factors is likely to have an effect on the rate of inflation which is different from that of the other three?

- A. an increase in rates of indirect taxation
- B. a depreciation of the Australian dollar
- C. an increase in labour productivity
- D. an increase in energy costs

Question 5

Between December 2008 and December 2009 the value of the Australian dollar appreciated.

Which of the following might result from this movement?

- A. an increase in direct foreign investment
- B. an increase in the price of imported component parts
- C. a decrease in Australian living standards
- D. a decrease in the demand for Australian exports

Question 6

The rate of growth of real Gross Domestic Product (GDP) per capita might understate the improvement in living standards if

- A. inflation is increasing.
- B. pollution is increasing.
- C. population is increasing.
- D. leisure time is increasing.

Question 7

The demand for home insulation is most likely to increase if

- A. a government subsidy for home insulation is removed.
- B. advertising of air conditioners is increased.
- C. the price of air conditioners is reduced.
- D. the price of electricity is increased.

Question 8

The price elasticity of supply of a product will be higher when

- A. the product is difficult to store.
- B. the product takes a long time to produce.
- C. the capital equipment required for its production is expensive.
- D. the machinery and equipment used in its production is underutilised.

Question 9

A strong economic recovery in China is **least** likely to have which of the following effects on the Australian economy?

- A. a decrease in commodity exports
- B. an increase in imports
- C. a decrease in the unemployment rate
- D. an increase in interest rates

Question 10

In the market for computers, a rise in productivity is likely to

- A. cause supply to decrease and price to fall.
- B. cause supply to decrease and price to rise.
- C. cause supply to increase and price to fall.
- D. cause supply to increase and price to rise.

Question 11

The difference between the nominal cash interest rate and the real cash interest rate depends on

- A. the exchange rate.
- B. the rate of inflation.
- C. the value of bank loans.
- D. the interest rate banks charge their customers.

Question 12

The Australian Bureau of Statistics (ABS) measurement of unemployment may underestimate the true level of unemployment when

- A. job vacancies have increased.
- B. more people are taking early retirement.
- C. people are discouraged from seeking work.
- D. there is an increasing number of part-time employees.

Question 13

Which of the following is an example of macroeconomic demand management policies operating compatibly?

- A. decreased interest rates, increased government spending and increased taxes
- B. decreased interest rates, decreased government spending and decreased taxes
- C. increased interest rates, increased government spending and increased taxes
- D. increased interest rates, decreased government spending and increased taxes

Question 14

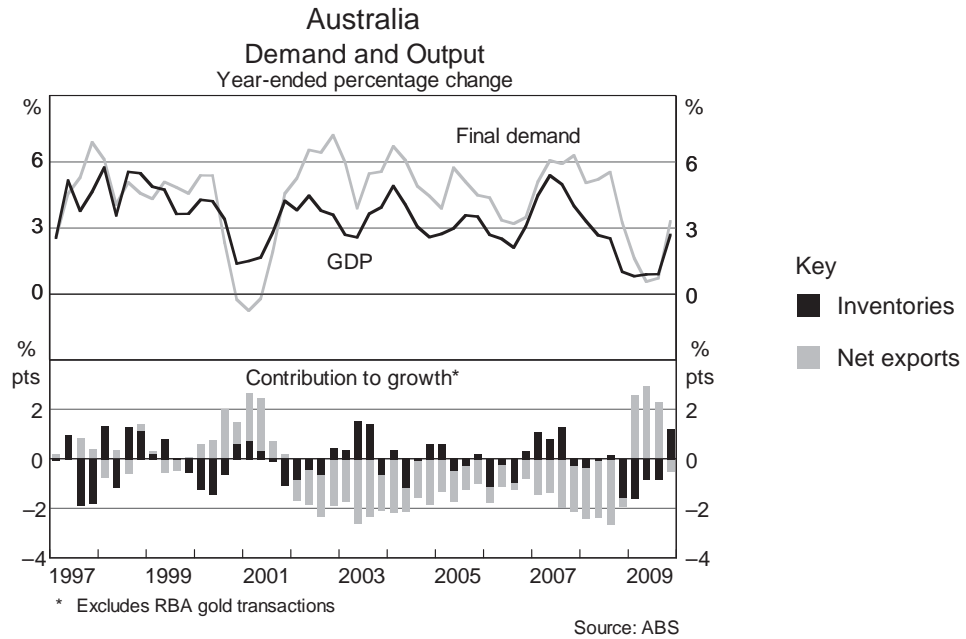
Consider the following table.

Year	Export price index	Terms of trade index
1	100	100
2	90	80
3	80	60

From the table one possible conclusion that can be drawn over the period shown is

- A. export prices were rising.
- B. import prices were rising.
- C. there was an improvement in the terms of trade.
- D. more imports could be purchased with the same quantity of exports.

Question 15



According to the graph above, which of the following statements is **not** true?

- A. The value of exports was greater than imports in 2009.
- B. Inventories made a negative contribution to growth during 2009.
- C. Australia achieved positive economic growth for all of the period shown.
- D. A slow-down in final demand in 2009 coincided with an increase in inventories.

- b. Describe **one** example of a budgetary policy action, implemented over the past two years, which might have operated to improve Australia's external stability.

4 marks

- c. Low inflation and strong and sustainable economic growth are considered key economic goals for the Australian economy. Discuss **one** impact on living standards of failing to meet the goal of low inflation and **another** impact on living standards of failing to meet the goal of strong and sustainable economic growth.

impact 1 _____

impact 2 _____

4 marks

- c. Outline **two** reasons which might justify government intervention in markets to achieve an efficient allocation of resources.

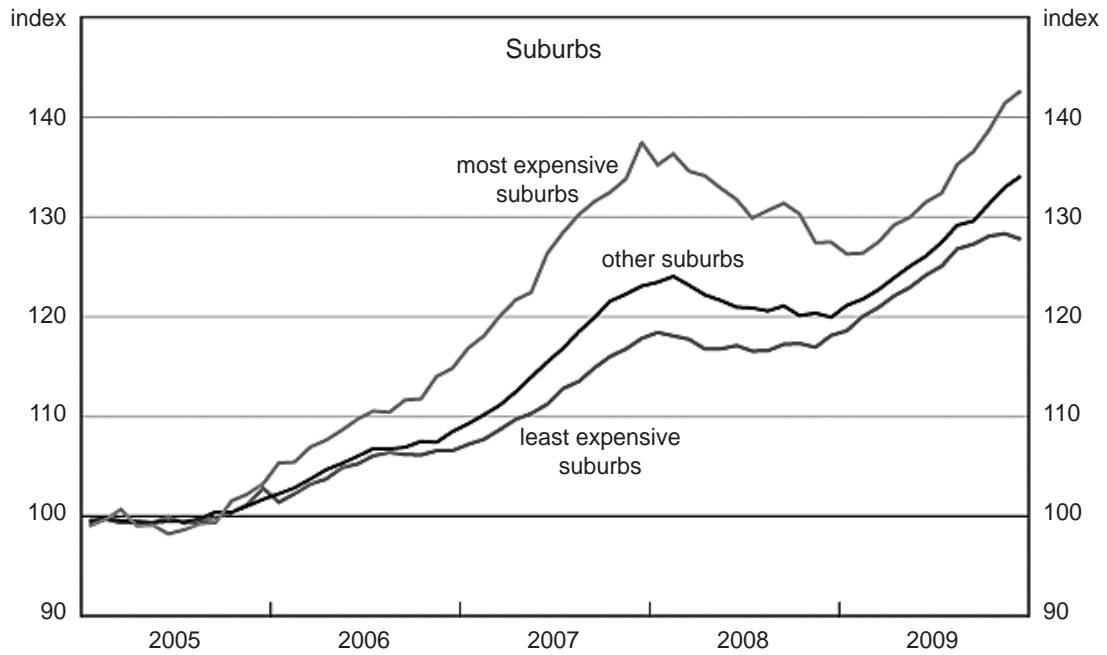
reason 1 _____

reason 2 _____

6 marks

Question 3

Australian Capital City Housing Prices*
2005 = 100



* weighted average of houses and apartments in capital cities, seasonally adjusted by RBA

Sources: APM; RBA; RP Data-Rismark, Reserve Bank of Australia Statement on Monetary Policy 2010 Graph 42

- a. Describe the overall trend in capital city housing prices during the period shown in the graph.

2 marks

Question 4

The key conclusions in the Australian Government’s 2010 Intergenerational Report, *Australia to 2050: Future Challenges*, are that an ageing population and climate change present significant long-term risks for the Australian economy.

- a. Outline **two** economic problems for the Australian economy that might result from an ageing population.

problem 1 _____

problem 2 _____

4 marks

