**Victorian Certificate of Education
2013**

STUDENT NUMBER

Letter

Figures

Words

ECONOMICS
Written examination

Thursday 31 October 2013

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

Section	Number of questions	Number of questions to be answered	Number of marks
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 24 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.

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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.
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> Marks will **not** be deducted for incorrect answers.
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> No marks will be given if more than one answer is completed for any question.

Question 1

Which one of the following would have a different effect on the overall level of aggregate demand from that of the other three?

A. an increase in savings

B. an increase in investment

C. an increase in net exports

D. an increase in government spending

Question 2

The effect of an introduction of a carbon tax of $23 per tonne of CO_2 emissions on the market for electricity that is generated from burning coal would be to

A. shift the supply curve to the left and cause a contraction in supply.

B. shift the supply curve to the left and cause a contraction in demand.

C. shift the demand curve to the left and cause a contraction in supply.

D. shift the demand curve to the left and cause a contraction in demand.

Question 3

Which one of the following policy decisions is likely to have a different effect on aggregate supply from that of the other three?

A. an increase in the pension qualification age from 65 to 70 years

B. the payment of a subsidy to parents to cover the cost of childcare

C. an increase in the minimum school leaving age from 15 to 17 years

D. relaxation of the criteria that need to be met in order to qualify as a skilled migrant to Australia

Question 4

Which one of the following is **not** an example of an automatic stabiliser?

A. unemployment benefits

B. social welfare payments

C. progressive income taxes

D. salaries paid to public servants

Question 5

Imagine that

- the inflation rate is at a low level, well within the target range
- the rate of economic growth is slowing
- the unemployment rate is rising.

It is most likely that the Reserve Bank of Australia (RBA) will implement a monetary policy that would

A. buy government securities and lower the cash interest rate.

B. buy government securities and raise the cash interest rate.

C. sell government securities and lower the cash interest rate.

D. sell government securities and raise the cash interest rate.

Question 6

In a given year, an increase in the trade-weighted index (TWI) is least likely to

A. distort income distribution in favour of Australian importing firms relative to Australian exporting firms.

B. assist with the lessening of cost pressures for Australian businesses.

C. result in greater leakages of spending out of the Australian economy.

D. contribute to an improvement in net external demand (X–M).

Question 7

Which one of the following statements regarding Real Gross Domestic Product (GDP) is **false**?

A. Real GDP excludes the costs that are associated with negative externalities.

B. Real GDP imputes the value of government services that are provided free of charge.

C. Real GDP includes home-based production, such as do-it-yourself home maintenance.

D. Real GDP measures the change in the value of goods and services that are produced over a period of time, adjusted for rates of inflation.

Question 8

If the RBA implements an expansionary monetary policy, the likely effect on consumer spending and on the household savings ratio would be that

A. consumer spending falls and the household savings ratio rises.

B. consumer spending rises and the household savings ratio falls.

C. consumer spending falls and the household savings ratio falls.

D. consumer spending rises and the household savings ratio rises.

Question 9

An improvement in average material living standards in Australia is

A. not achievable if there has been a decline in non-material living standards.

B. considered to have occurred if there has been an increase in Real GDP per capita over time.

C. possible only if the Australian Government has successfully achieved its goal of equity in income distribution.

D. more likely to occur in a period of macroeconomic contraction of the global economy, placing Australia in a position of global competitive advantage.

Question 10

Classification	Millions
unemployed persons	5
underemployed persons	7
labour force	100
total population aged over 15 years	150

Based on the data that is shown above for a hypothetical economy, the labour force under-utilisation rate is

A. 5 per cent

B. 7 per cent

C. 12 per cent

D. 66 per cent

Question 11

What would be the effect of an increase in net capital inflow on the Australian currency?

A. an increase in the demand for the Australian dollar and an appreciation of the currency

B. a decrease in the demand for the Australian dollar and a depreciation of the currency

C. an increase in the supply of the Australian dollar and an appreciation of the currency

D. a decrease in the supply of the Australian dollar and a depreciation of the currency

Question 12

The prices of imported manufactured goods in Australia have decreased in recent years.

Which one of the following is unlikely to have been a result of this trend?

A. an expansion in demand for imports by Australian consumers

B. reduced profitability and decreased company taxation revenue derived from domestic manufacturing industries

C. an increase in the value of merchandise debits (merchandise import payments) in the current account of the balance of payments

D. increased employment in import-competing (import-replacement) industries, such as the Australian car-manufacturing industry

Question 13

The promoter of a theatre play discounted the price of admission by 30 per cent, which resulted in average attendances rising by 50 per cent.

Based on this data, it could be concluded that there is an

A. elastic demand.

B. inelastic demand.

C. elastic supply.

D. inelastic supply.

Question 14

Assume that between year 1 and year 2 the top 20 per cent of income earners in a country receive a larger share of total income and the bottom 20 per cent of income earners receive a smaller share of total income.

Which one of the following best describes the effect that has occurred on income distribution?

A. The Lorenz Curve moves closer to the 45-degree line and the Gini Coefficient moves closer to one.

B. The Lorenz Curve moves closer to the 45-degree line and the Gini Coefficient moves closer to zero.

C. The Lorenz Curve moves further away from the 45-degree line and the Gini Coefficient moves closer to one.

D. The Lorenz Curve moves further away from the 45-degree line and the Gini Coefficient moves closer to zero.

Question 15

Which one of the following characteristics is **not** shared by the market structures of perfect competition and monopolistic competition?

A. a large number of buyers

B. a large number of sellers

C. low barriers to entry

D. identical products

END OF SECTION A

TURN OVER

SECTION B – Written responses

Instructions for Section B

Answer **all** questions in **pen** in the spaces provided.

Question 1 (12 marks)

Consider the following data for Australia over recent years.

Year as at June	GDP (chain volume) (a)	Terms of trade index (April 2008 = 100) (b)	Consumer confidence/ sentiment index (c)	ABS unemployment rate (d)	Target cash rate of interest (e)
2010	3.3%	113.6	102	5.1%	4.50%
2011	1.4%	128.1	101	4.9%	4.75%
2012	3.7%	118.1	96	5.2%	3.50%

Sources: (a), (b), (d) ABS economic indicators (various); (c) Westpac – Melbourne Institute of Applied Economic and Social Research; (e) Reserve Bank of Australia, cash rate target
Data has been rounded off to the nearest index point for (b) and (c).

a. By December 2012, Australia's unemployment rate was 5.4 per cent.

Using the information in the table, identify a factor that might have contributed to the increase in the unemployment rate between June 2011 and December 2012, and explain why.   2 marks

b.   Describe how a rise in the unemployment rate might affect **each** of the following.   4 marks

•   the cyclical component or automatic stabilisers of the Australian budget

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•   Australia's living standards

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c. Explain how discretionary budgetary policy and monetary policy might be used in the policy mix to influence levels of aggregate demand to lower the rate of unemployment. In your answer, describe how discretionary budgetary policy and monetary policy have operated to affect the unemployment rate in 2013.   6 marks

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Question 2 (19 marks)

'Australia's productivity performance has deteriorated over the past decade … In the long run this will impair … our ability to respond to everything from an ageing population to climate change.'

a. Explain how **each** of the following might influence Australia's future rate of economic growth.   6 marks

   • an ageing population

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   • the effects associated with climate change

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b. Describe how **one** environmental policy might operate to improve Australia's long-term economic prosperity and living standards.　　　　　　　　　　　　　3 marks

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c. Budgetary policy and immigration policy can operate to influence aggregate supply.

Discuss how these policies might be combined in the policy mix to influence aggregate supply in order to improve Australia's long-term economic prosperity and living standards.   6 marks

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d. Discuss how **one** of the following microeconomic reform policies might operate or has
operated to increase productivity and thus promote the achievement of the key economic goal
of low inflation.

- trade liberalisation
- deregulation of key markets
- National Competition Policy
- labour market reform   4 marks

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Question 3 (17 marks)

Examine the following demand and supply graph for cups of takeaway coffee from competing coffee shops located near Southern Cross railway station in Melbourne.

Demand and supply for cups of takeaway coffee
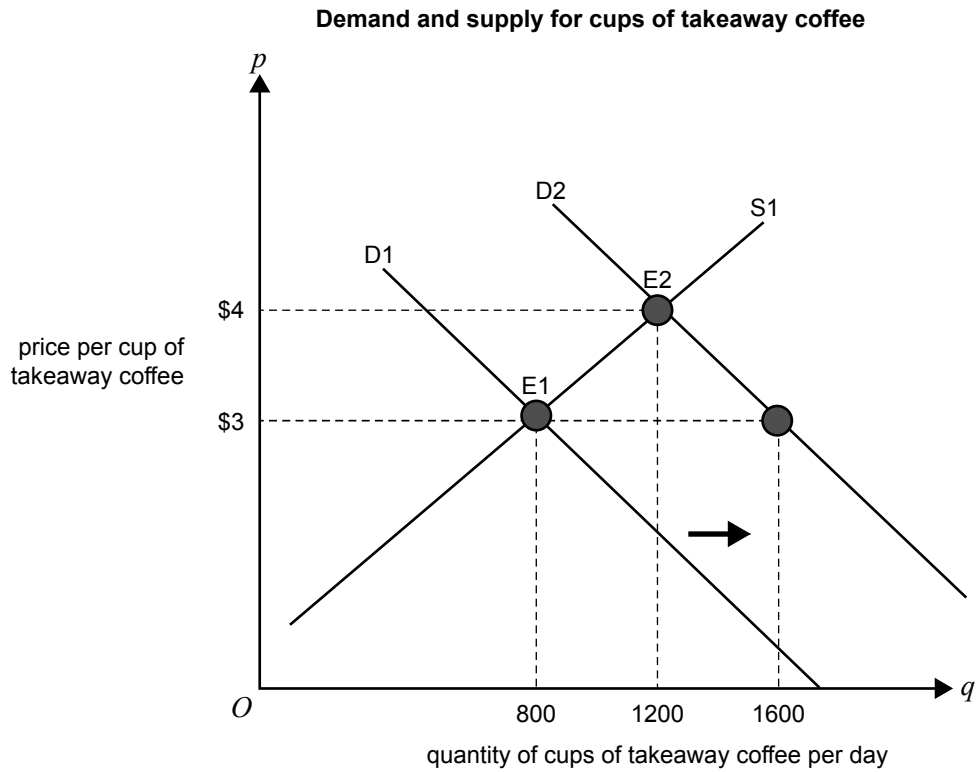
a. **i.** Describe the change in demand for cups of takeaway coffee from D1 to D2 and briefly explain **one** microeconomic demand-side factor that might have caused this change. 2 marks

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ii. Explain how the equilibrium market price and quantity adjusts from E1 to E2.   2 marks

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iii. With reference to this market, briefly explain the role of the price mechanism (market mechanism) in changing the pattern of resource allocation.   2 marks

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b. Explain what is meant by **each** of the following. 4 marks

- an efficient allocation of resources

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- equity in the distribution of income

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c. Explain what is meant by the trade-off between equity and efficiency in the Australian economy.   3 marks

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d. 'Australia's prosperous mining industry does not provide a typical picture of Australian business in 2012.

A much more diverse picture emerges when Australia's economic performance is viewed across the different sectors and different regions.

That picture reveals the overwhelming majority of Australian employers, particularly those SME's [small and medium enterprises] in the service sector, are travelling in the slow lane of this country's multi-speed, patchwork economy.'

Source: Australian Chamber of Commerce and Industry, 'Two speed economy demands caution on wages'
(media release), 16 March 2012; http://www.acci.asn.au

Identify **one** aggregate demand management policy or aggregate supply policy that has been implemented in Australia since 2011 and discuss the way in which this policy might have either added to the 'problem' of the two-speed economy or addressed concerns with it. 4 marks

Question 4 (12 marks)

a.   Outline **one** factor that might have affected the value of the Australian dollar in 2013.   2 marks

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b.   Outline **one** reason why the Australian Government might be concerned if the value of the
Australian dollar was to remain at a relatively high level.   2 marks

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c. Describe the effect of a high Australian dollar on **each** of the following.   4 marks

- the goal of low inflation

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- Australia's living standards

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d. Achieving external stability is one of the Australian Government's key economic goals.
        Explain **one** policy that has been used or might be used to promote the achievement of
        external stability.   4 marks

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END OF QUESTION AND ANSWER BOOK

TURN OVER

Extra space for responses

Clearly number all responses in this space.

A script book is available from the supervisor if you need extra paper to complete your answer. Please ensure you write your **student number** in the space provided on the front cover of the script book. **At the end of the examination, place the script book inside the front cover of this question and answer book.**

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Victoria

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