



Victorian Certificate of Education

2004

SUPERVISOR TO ATTACH PROCESSING LABEL HERE

STUDENT NUMBER

Letter

Figures

Words

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ECONOMICS

Written examination

Wednesday 3 November 2004

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	Suggested times (minutes)
A	15	15	30	30
B	3	3	60	90
			Total 90	120

- 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.
- A script book is available from the supervisor if required.

Instructions

- Write your **student number** in the space provided above on this page and on the front cover of any script book used.
- 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. If a script book is used, place it inside the cover of this question and answer book.

Students are NOT permitted to bring mobile phones and/or any other electronic communication 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

Which of the following would most likely decrease as a result of an upturn in the business (economic) cycle?

- A. the rate of inflation
- B. the level of economic activity
- C. the level of imports
- D. the rate of unemployment

Question 2

Higher domestic interest rates tend to

- A. encourage spending and discourage saving.
- B. reduce household disposable income and increase aggregate demand.
- C. discourage capital inflow and weaken the value of the Australian dollar.
- D. slow economic activity and increase unemployment.

Question 3

As a result of a substantial increase in wages paid to carpenters, we would expect that the price of new houses would

- A. increase as there would be an increase in the demand for new housing across the community.
- B. decrease as there would be a decrease in the demand for new housing across the community.
- C. increase as there would be a decrease in the supply of new housing due to higher production costs.
- D. decrease as there would be an increase in the supply of new housing due to higher production costs.

Question 4

With the introduction of pay TV in Australia, television broadcasting in general can no longer be described as a 'public (collective) good' since

- A. 'free-to-air' television broadcasting continues.
- B. consumers are excluded from pay TV unless they pay.
- C. laws exist to keep major sports events on free-to-air TV.
- D. there is rivalry in the consumption of a TV broadcast.

Question 5

A relatively low rate of unemployment could be compatible with a low inflation rate if

- A. labour productivity was growing relatively strongly.
- B. the domestic currency was rapidly depreciating.
- C. wages were growing rapidly.
- D. the labour force participation rate increased.

Question 6

The most likely automatic effect on the government's budget during a period of sustained expansion in the economy would be to push the budget into

- A. surplus as tax revenue will fall and government transfer payments will rise.
- B. surplus as tax revenue will rise and government transfer payments will fall.
- C. deficit as tax revenue will fall and government transfer payments will rise.
- D. deficit as tax revenue will rise and government transfer payments will fall.

Question 7

Which of the following is most likely to lead to the Reserve Bank of Australia increasing interest rates?

- A. an increase in unmet demand for consumer products
- B. a decline in the international competitiveness of Australian exporters
- C. an improvement in Australian labour productivity
- D. an appreciation of the Australian dollar

Question 8

A major determinant of demand in one particular market would be

- A. the number of sellers in the market.
- B. the money incomes of buyers in that market.
- C. the technique of production.
- D. the cost of raw materials.

Question 9

An appreciation of the Australian dollar relative to other major currencies would most likely

- A. advantage Australian consumers buying imported cars.
- B. disadvantage Australians travelling overseas.
- C. improve the international competitiveness of Australian exporters of manufactured goods.
- D. create more employment opportunities in Australian export industries.

Question 10

The table below shows balance of payments data for a country.

	A\$m
Exports of merchandise trade	40 000
Imports of merchandise trade	31 000
Service credits	8 000
Service debits	11 000
Net income and transfers	–5 000

Based on this data, which of the following statements is **not** true?

- A. The balance of merchandise trade is A\$9 000m.
- B. Net services are –A\$3 000m.
- C. The balance on current account is A\$6 000m.
- D. The value of goods and services exported is greater than the value of goods and services imported.

Question 11

All else being equal, the increasing popularity of portable 'mp3' music players is likely to have which of the following effects?

- A. an increase in the price and quantity sold of portable CD players
- B. a decline in the price and an increase in the quantity sold of portable mp3 players
- C. a decline in the price of portable CD players and an increase in the quantity sold of portable CD players
- D. a decline in the price and quantity sold of portable CD players

Question 12

Which budgetary/fiscal policy measure is likely to have a positive impact on the supply-side of the economy?

- A. reduced government expenditure on the provision of infrastructure
- B. increased company tax rates
- C. increased tax concessions for research and development (R & D)
- D. reduced interest rates

Question 13

The table below shows some labour market data for a hypothetical economy.

Year	Number of persons employed (000s)	Labour force (000s)
2003	100	150
2004	200	250

Based on this data, which one of the following statements is **true**?

- A. The unemployment rate in 2004 is exactly the same as in 2003.
- B. The unemployment rate in 2004 is higher than in 2003.
- C. The unemployment rate in 2004 is lower than in 2003.
- D. There is not enough information to determine unemployment rates.

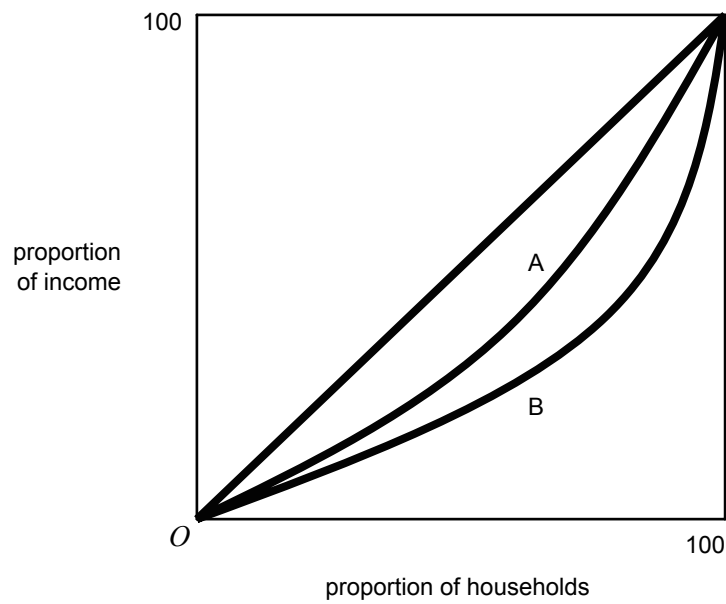
Question 14

Which of the following would be an **incorrect** measure of a country's Gross Domestic Product (GDP)?

- A. the total value of expenditure on the final output produced in that country
- B. the total value of the final output produced in that country
- C. the total value of all income earned as a result of producing final output in that country
- D. the total value of currency plus bank deposits in that country

Question 15

Lorenz curves for country A and country B.



With reference to the above diagram, which of the following statements is **correct**?

- A. Country A has a more equitable distribution of income than country B.
- B. Country A has a less equitable distribution of income than country B.
- C. The Gini coefficient for country A is equal to 1.
- D. The Gini coefficient for country A is greater than for country B.

SECTION B – Written responses**Instructions for Section B**

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

Question 1**Table 1.** Trends in Australian economic growth and unemployment

	GDP % increase chain volume measure	Unemployment rate %
1993–94	3.9	10.2
1994–95	4.3	8.7
1995–96	4.3	8.1
1996–97	3.8	8.3
1997–98	4.5	8.0
1998–99	5.3	7.4
1999–00	4.0	6.6
2000–01	1.8	6.4
2001–02	3.9	6.7
2002–03	2.7	6.1

Source: Data derived from ABS, *Economic Indicators*, various issues and
RBA *Monthly Bulletin*, various issues

- a.** Explain the economic objective of full employment.

2 marks

- b.** Explain the relationship between the economic objective of full employment and each of the following economic objectives.
- i.** price stability

- ii.** equity in personal income distribution

2 + 2 = 4 marks

- c. Table 1 shows that Australia has experienced a sustained period of economic growth. Outline **two** factors that have contributed to this trend.

4 marks

- d. Examine **two** reasons why there has been only a gradual reduction in the rate of unemployment, despite Australia achieving relatively high rates of economic growth over the past decade.

4 marks

- [illegible]

[illegible]

Total 22 marks

- b.** Outline the current operational objective of Australian monetary policy.

2 marks

- c.** Explain **one** way the appreciation of the Australian dollar between 2002–2004 may impact on the economic objective of price stability.

2 marks

- d.** Explain **one** likely impact on the value of the Australian dollar of a tightening of monetary policy by the Reserve Bank of Australia (RBA).

2 marks

- e.** Suppose the Australian Government cuts income tax and increases government spending, increasing the budget deficit or reducing the budget surplus.
- i.** Outline **one** effect this might have on external stability.

- ii. Outline **one** effect this might have on personal income distribution.

- iii. Given the current operational objective of monetary policy, explain the Reserve Bank of Australia's most likely response if the government cuts income tax and increases government spending.

2 + 2 + 4 = 8 marks

Total 18 marks

Question 3

‘Dogged [persistent] pursuit of structural [microeconomic] reforms across a very broad front, and prudent [careful] macroeconomic policies firmly set in a medium term framework, have combined to make the Australian economy one of the best performers in the OECD . . . ’

Source: OECD Policy Brief Economic Survey of Australia 2003

<http://www.oecd.org/dataoecd/4/6/2497195.pdf>

- a. Briefly explain the rationale for microeconomic (structural) reform policies.

2 marks

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- This image shows a single sheet of white paper with horizontal ruling lines. The lines are evenly spaced and run across the width of the page. There are no margins, text, or other markings on the paper.

SECTION B – Question 3 – continued
TURN OVER

- c. Outline **one** possible economic benefit and **one** possible economic cost associated with a free trade agreement between Australia and the United States.

Possible benefit _____

Possible cost _____

4 marks

- [illegible]

TURN OVER

A script book is available from the supervisor if you require extra paper to complete your answer.
Please ensure that 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.

END OF QUESTION AND ANSWER BOOK

