



Victorian Certificate of Education 2005

SUPERVISOR TO ATTACH PROCESSING LABEL HERE

STUDENT NUMBER

Letter

Figures

Words

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ECONOMICS

Written examination

Wednesday 2 November 2005

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>	<i>Suggested times (minutes)</i>
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 19 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 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.

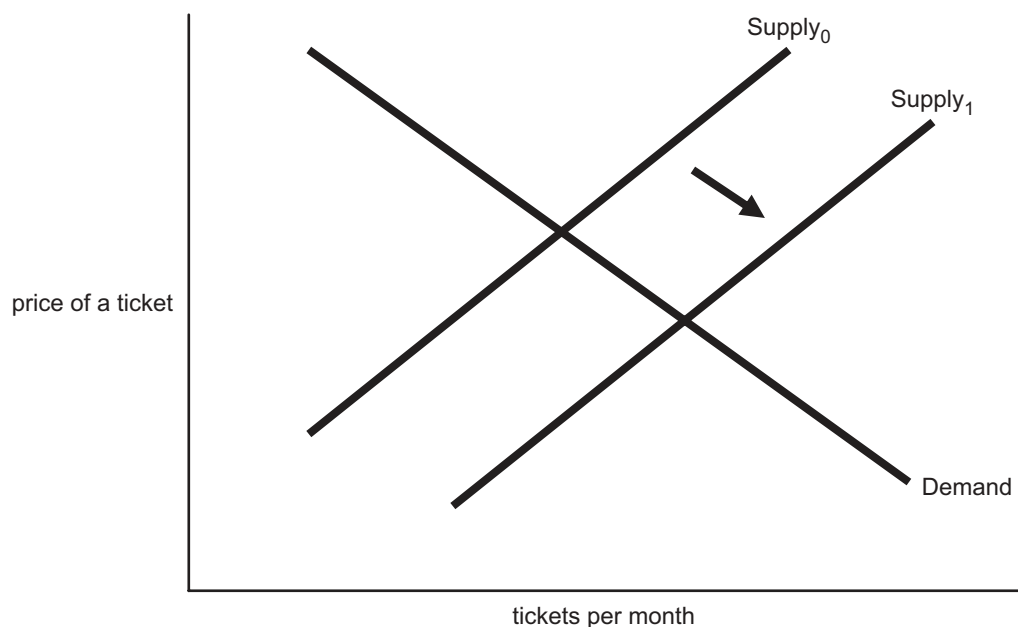
Question 1

A firm is said to be a monopoly if it produces a good or service for which

- A. there is no close substitute.
- B. there is no foreign competition.
- C. the government is not a buyer.
- D. there is only one buyer of this product.

Question 2

Consider the following demand and supply diagram, for airline tickets from Melbourne to London, showing a shift in the supply curve from Supply_0 to Supply_1 .



This shift in the supply curve could have been caused by

- A. an increase in the demand for airline tickets to London.
- B. a decrease in the price of airline tickets to London.
- C. a decrease in the cost of aviation fuel.
- D. an increase in the price of airline tickets from Melbourne to New York.

Question 3

Which one of the following is **not** an example of market failure?

- A. negative externalities resulting from car pollution
- B. private firms being unwilling to supply defence services
- C. the concentration of firms which results in a single supplier dominating the market
- D. a proportion of the workforce earning below average weekly earnings

Question 4

Chris can bake either 8 pies or 4 loaves of bread per hour.

For Chris, the opportunity cost of baking an extra pie is

- A. $\frac{1}{2}$ a loaf of bread.
- B. $\frac{1}{2}$ a pie.
- C. 2 loaves of bread.
- D. 2 pies.

Question 5

Which policy mix is most likely to increase aggregate demand?

- A. a decrease in interest rates and an increase in government spending
- B. a decrease in interest rates and a decrease in government spending
- C. an increase in interest rates and a decrease in government spending
- D. an increase in interest rates and an increase in government spending

Question 6

Which account, in the Balance of Payments, records Australia's foreign aid?

- A. merchandise trade
- B. transfers
- C. services
- D. incomes

Question 7

The table below shows the unemployment rate for an economy over a three-year period.

Year	Unemployment rate
1	6.9
2	6.2
3	5.5

Which one of the following would **not** be a possible factor contributing to the trend in the unemployment rate in the years shown?

- A. a strong global economy
- B. rising consumer confidence
- C. rising participation rates
- D. rising private investment expenditure

Question 8

Which one of the following statements is **most** accurate in relation to Australia in the 2004–2005 financial year?

- A. The unemployment rate averaged between 6–7% and the inflation rate averaged between 2–3%.
- B. The rate of growth of real GDP averaged between 5–6% and the rate of growth of average weekly earnings averaged a little over 8%.
- C. The Australian Government budget deficit averaged \$3bn and the cash interest rate was in the range of 7–8%.
- D. The inflation rate averaged 2–3% and the rate of growth of real GDP averaged between 1.0–3.0%.

Question 9

Which one of the following is **not** classified as a risk to the achievement of price stability in the medium term?

- A. rising oil prices
- B. rising productivity levels
- C. rising levels of consumer confidence
- D. rising employment costs

Question 10

Other things being equal, what will the likely impact be on the Australian economy of an increase in Australian interest rates?

Economic activity will

- A. accelerate and the Australian dollar appreciate.
- B. accelerate and the Australian dollar depreciate.
- C. slow and the Australian dollar appreciate.
- D. slow and the Australian dollar depreciate.

Question 11

Monetary policy in Australia is primarily targeted at the economic objective of

- A. economic growth.
- B. external stability.
- C. full employment.
- D. price stability.

Question 12

An appreciation in the Australian dollar against the world's major currencies will most likely

- A. assist Australian exporters to sell their products in overseas markets.
- B. cause the Reserve Bank of Australia to raise interest rates.
- C. lead to job losses in the Australian tourism industry.
- D. produce an increase in Australia's rate of inflation.

Question 13

An increase in the size of the budget surplus and a tightening of monetary policy is likely to have which of the following effects on the economy?

- A. increase the rate of unemployment and the rate of inflation
- B. increase the rate of unemployment and decrease the rate of inflation
- C. decrease the rate of unemployment and increase the rate of inflation
- D. decrease the rate of unemployment and the rate of inflation

Question 14

The market for pizza has the following demand and supply schedules.

Price \$	Quantity demanded	Quantity supplied
4	135	26
5	104	53
6	81	81
7	68	98
8	53	111
9	39	121

Which of the following statements about the pizza market is **incorrect**?

- A. The equilibrium price for pizzas is \$6.00.
- B. At a price of \$8.00 there is an excess supply of pizzas.
- C. At a price of \$5.00 there is an excess demand for pizzas.
- D. The equilibrium quantity traded would be 53 pizzas.

Question 15

The government's budget outcome, during a time of recession, is most likely to be in

- A. deficit, since tax payments tend to fall and government outlays tend to rise when economic activity is weak.
- B. surplus, since tax payments tend to fall and government outlays tend to rise when economic activity is weak.
- C. deficit, since tax payments tend to rise and government outlays tend to fall when economic activity is weak.
- D. surplus, since tax payments tend to rise and government outlays tend to fall when economic activity is weak.

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

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

Question 1

‘If Australia is to grow strongly, the capacity constraints we are now up against in terms of exports and in the labour market need to be alleviated by further policies to increase productive capacity.’

- a. i.** Explain the meaning of the term productive capacity.

- ii.** Outline how any **one** of the following factors may affect productive capacity.

- an increase in the labour force participation rate
- a slowdown in the rate of technological change
- an increase in government spending on infrastructure

2 + 2 = 4 marks

- b. Explain how the capacity constraints mentioned in the statement at the beginning of this question (that is ‘in terms of exports and in the labour market’) may impact on future rates of economic growth.

4 marks

- c. Select any **two** examples of microeconomic reform policy and discuss how these policies have been, or are being, implemented to increase economic growth.

Example 1 _____

Example 2 _____

6 marks

‘A necessary prerequisite for the achievement of strong and sustainable rates of economic growth is the provision of increased productive capacity. However, growth will not occur unless the economy also generates an increasing level of aggregate demand.’

d. Explain how **one** of the following factors would be likely to increase aggregate demand and economic growth **and** explain how **one** other factor would be likely to slow aggregate demand and economic growth.

- an increase in the size of the Australian Government’s budget surplus
- a strong economic recovery overseas
- an increase in Australian interest rates
- a reduction in the company tax rate

Factor to increase aggregate demand and economic growth _____

Factor to slow aggregate demand and economic growth _____

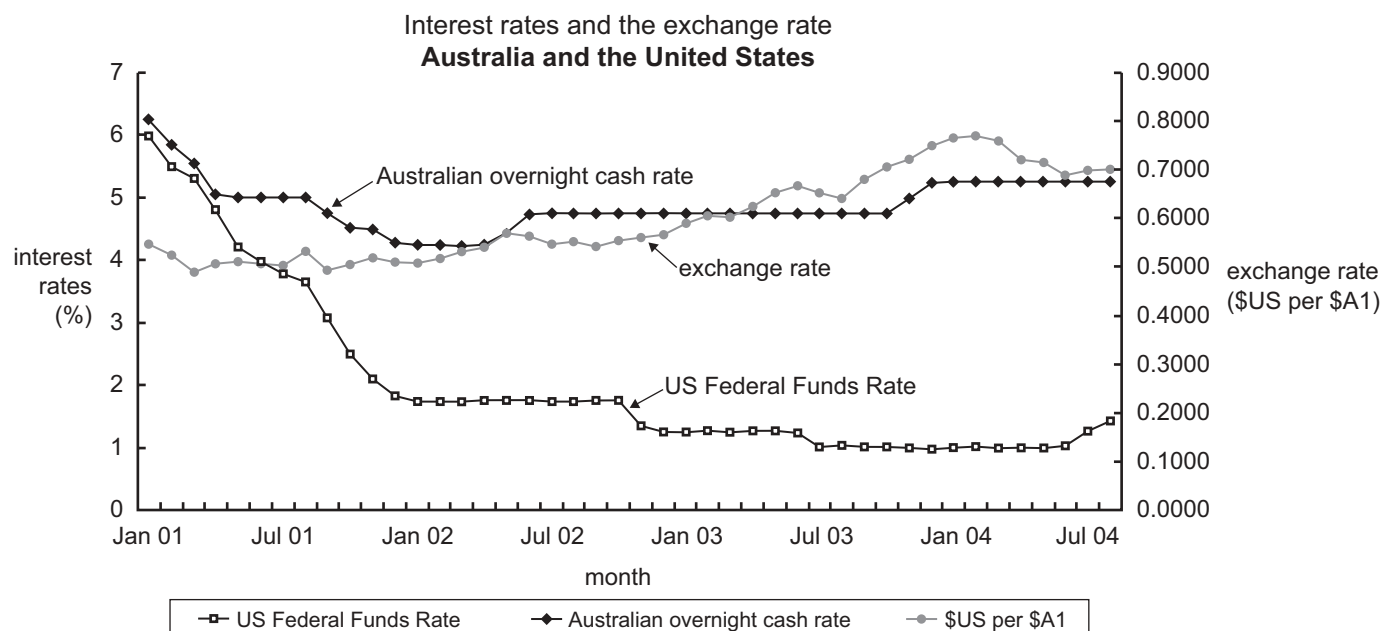
6 marks

Total 20 marks

SECTION B – continued
TURN OVER

Question 2

The following graph shows two interest rates, one for Australia, the other for the United States. The Australian interest rate is the interest rate in the overnight cash market. This is the interest rate used to set monetary policy in Australia. The United States interest rate is the Federal Funds Rate. This is the interest rate used to set monetary policy in the United States. Also shown is the exchange rate, defined as the amount of United States currency required to purchase one Australian dollar.



Source: Reserve Bank of Australia Statistical Bulletin, various issues.

- a. Explain **two** circumstances in which the Reserve Bank of Australia is likely to increase its target for the interest rate in the overnight cash market.

Circumstance 1 _____

Circumstance 2 _____

4 marks

- b. i.** Based on the information shown in the graph, describe and account for the trend in the exchange rate for the period since July 2002.

4 marks

- ii. Explain how changes in the exchange rate since July 2002 may have affected each of the following.

- the Australian balance of payments on the current account _____

- the Australian inflation rate _____

6 marks

c. Assess the likely impact on Australia's exchange rate of any **two** of the following.

- a favourable movement in the terms of trade
- falling world commodity prices
- high levels of domestic consumer confidence

Factor one _____

Factor two _____

6 marks

Total 20 marks

Question 3

- a. Explain the meaning of the economic objective of equity in personal income distribution.

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. Select any **two** of the following policies and assess the likely impact of these policies on equity in personal income distribution.
- a cut in the top rate of marginal income tax from 47% to 42%
 - an increase in the Goods and Services Tax (GST) rate from 10% to 12.5%
 - welfare reforms that mean unemployed workers receive benefits for a maximum of six months
 - increased government funding for retraining schemes for the long-term unemployed

Policy 1 _____

Policy 2 _____

6 marks

- [illegible]

Total 20 marks

The following two pages may be used as extra space, if required, to answer Section B. If more space is needed see instructions on the bottom of page 19.

[illegible]

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.