VICTORIAN CURRICULUM AND ASSESSMENT AUTHORITY

Victorian Certificate of Education
2006

SUPERVISOR TO ATTACH PROCESSING LABEL HERE

STUDENT NUMBER

Figures									Letter
Words									

ECONOMICS

Written examination

Wednesday 1 November 2006

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	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 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

The Reserve Bank of Australia's current medium term monetary policy objective is

A. to minimise the rate of inflation.
B. to maximise the rate of economic growth.
C. to keep the inflation rate between 0 and 3 per cent over the business cycle.
D. to keep the annual inflation rate between 2 and 3 per cent on average over the business cycle.

Question 2

If the youth unemployment rate were 30 per cent, this would mean

A. 30 per cent of youths are unemployed.
B. 70 per cent of youths are employed.
C. 30 per cent of youths in the workforce are unemployed.
D. 30 per cent of youths are actively seeking work.

Question 3

The Goods and Services Tax (GST) is an example of

A. a direct and progressive tax.
B. an indirect and regressive tax.
C. a direct and flat tax.
D. an indirect and progressive tax.

Question 4

The Australian dollar is most likely to appreciate when

A. there is an increase in the demand for commodities.
B. the Reserve Bank of Australia sells Australian dollars in the foreign exchange market.
C. the Federal Reserve increases US interest rates.
D. there is a slowdown in world economic growth.

Question 5

Which one of the following is an example of an automatic stabiliser?

A. the full privatisation of Telstra
B. a reduction in marginal income tax rates
C. an increase in interest rates due to higher inflation levels
D. an increase in company tax collections due to stronger economic growth

SECTION A – continued

Question 6

A market economy is unable to allocate resources efficiently when

A. there are many buyers and sellers of a product.

B. local producers face competition from imports.

C. producers of a product impose an external cost on others.

D. there is an unequal distribution of income in the economy.

Question 7

Brazil is the world's leading producer of coffee. Poor weather conditions severely cut Brazilian coffee production.

Assuming coffee drinkers also drink tea, this cut in coffee production is likely to lead to

A. a decrease in the price of coffee and an increase in the price of tea.

B. an increase in the price of coffee and an increase in the price of tea.

C. an increase in the price of coffee and a decrease in the price of tea.

D. a decrease in the price of coffee and a decrease in the price of tea.

Question 8

A tightening of monetary policy in Australia is most likely to occur if the

A. rate of inflation moves above the Reserve Bank of Australia's target range.

B. unemployment rate significantly increases.

C. exchange rate suddenly appreciates.

D. size of the budget surplus increases.

Question 9

The removal of tariff protection is likely to improve which of the following policy goals?

A. allocative efficiency

B. full employment

C. external stability

D. equity in the distribution of income

Question 10

An increase in the marginal rate of tax paid on high incomes combined with an increase in the rate of unemployment benefits is likely to have which of the following effects on the economy's Gini coefficient?

A. increase

B. decrease

C. no change

D. make the Gini coefficient equal to 1

Question 11

A policy mix which combines a budget deficit and expansionary monetary policy is most likely to result in

	Rate of inflation	Rate of unemployment	Size of current account deficit
A.	increase	decrease	increase
B.	decrease	decrease	increase
C.	increase	increase	increase
D.	decrease	decrease	decrease

Question 12

Which of the following components of aggregate demand normally fluctuates the most?

A. private consumption expenditure (C)

B. private investment expenditure (I)

C. public current expenditure (G1)

D. public capital expenditure (G2)

Question 13

Which one of the following may cause the federal government budget outcome to move from a deficit to a surplus?

A. There is an increase in the unemployment rate.

B. Taxation reform sees the government lower the GST rate.

C. There is an acceleration in the rate of economic growth.

D. There is an increase in interest rates.

Question 14

A government regulation placed a limit on the number of foreign doctors practising in Australia.

The removal of this limit would most likely lead to

A. an increase in fees charged by doctors as the demand for medical services would increase.

B. an increase in fees charged by doctors as the supply of medical services would decrease.

C. a decrease in fees charged by doctors as the demand for medical services would decrease.

D. a decrease in fees charged by doctors as the supply of medical services would increase.

Question 15

Which one of the following policy actions could the federal government implement to reduce aggregate demand pressures?

A. a decrease in marginal income tax rates

B. an increase in government infrastructure spending

C. a decrease in interest rates

D. discretionary changes in fiscal/budgetary policy to increase the size of the government budget surplus

END OF SECTION A

SECTION B – Written responses

Instructions for Section B

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

Question 1

The following table shows Australia's unemployment rate.

At June in each year	Unemployment rate %
June 1994	9.7
June 1995	8.1
June 1996	8.0
June 1997	8.2
June 1998	7.9
June 1999	6.7
June 2000	6.2
June 2001	6.9
June 2002	6.5
June 2003	6.2
June 2004	5.6
June 2005	5.0

Source: Reserve Bank of Australia

a. Describe the trend in Australia's unemployment rate since June 2001 shown in the table above.

2 marks

b. Explain how **one** demand factor may have influenced the trend in Australia's unemployment rate described in the table on the previous page.

2 marks

c. Define **labour force participation rate**.

2 marks

d. Explain why the labour force participation rate is an example of an aggregate supply factor.

4 marks

e. Recent federal budgets have been concerned with boosting labour force participation rates.

i. Explain **one** reason why it is seen as an important policy aim to increase the labour force participation rate.

ii. Discuss **two** economic policies that have been implemented or could be implemented to increase the labour force participation rate.

2 + 6 = 8 marks

Total 18 marks

Question 2

a. Define **market mechanism** and **market failure**.

4 marks

b. Discuss **two** reasons for government intervention in markets.

6 marks

c. Two economic objectives of government are to achieve

- strong and sustainable economic growth
- an efficient allocation of resources.

i. Describe the relationship between these two economic objectives.

ii. Examine the role of budgetary policy and microeconomic reform policies in achieving these two economic objectives (strong and sustainable economic growth, and an efficient allocation of resources) in the government policy mix over the past three years.

4 + 8 = 12 marks

Total 22 marks

Question 3

Global economic conditions are continuing to provide a favourable environment for the Australian economy. The expansion underway over the past few years was initially led by the United States and China, but it has become more broadly based over time . . . Growth in world GDP is estimated to have been well above average in 2005, and most observers expect this to continue in 2006.

Reserve Bank of Australia 'Statement on Monetary Policy', 13 February 2006

a. Describe the likely impact of strong global economic growth on any **two** of the following Australian economic variables.

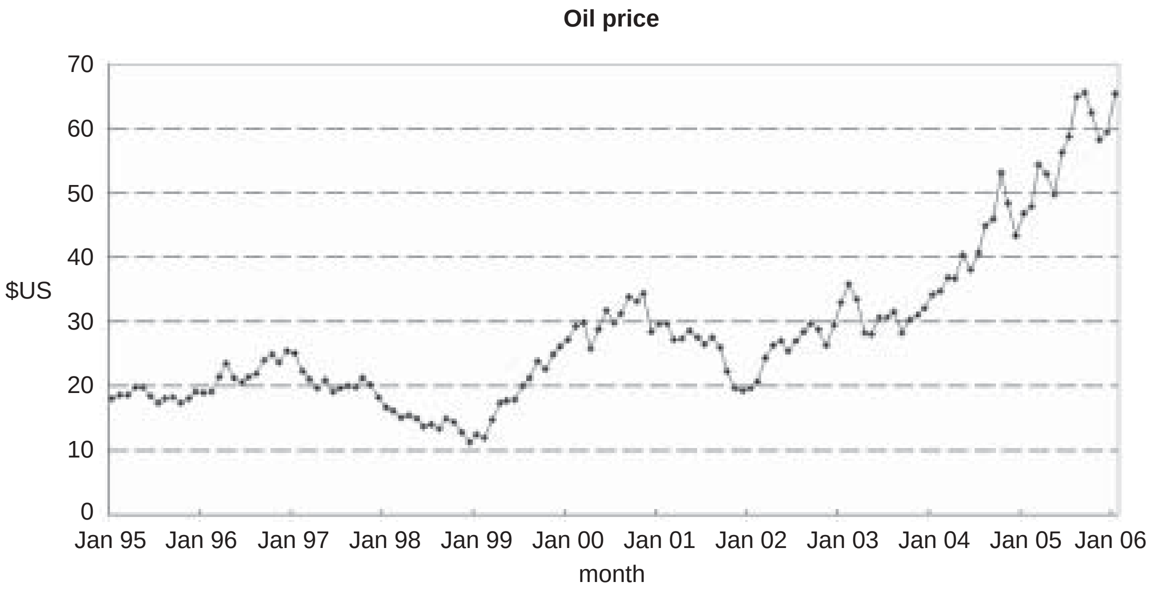
1. the rate of economic growth
2. the current account in the balance of payments
3. the rate of inflation

4 marks

b. Explain how the setting of fiscal/budgetary and monetary policies might be affected by continued strong economic growth in the rest of the world.

6 marks

The following graph shows the international crude oil price.



Source: Federal Reserve Bank of St. Louis

c. Describe **two** economic reasons for the increase in the international crude oil price since 2003.

4 marks

d. Explain the likely effects of increased oil prices on any **two** of the following Australian economic variables.

1. the level of interest rates
2. the value of the dollar
3. the equity in personal income distribution

6 marks

Total 20 marks

END OF QUESTION AND ANSWER BOOK

Extra space for responses

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.**