VICTORIAN CURRICULUM AND ASSESSMENT AUTHORITY

Victorian Certificate of Education 2009

SUPERVISOR TO ATTACH PROCESSING LABEL HERE

STUDENT NUMBER

									Letter
Figures									
Words									

ECONOMICS

Written examination

Friday 6 November 2009

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 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

An economy is in recession.

A recommended policy mix might be to

A. increase interest rates, increase government spending and decrease taxes.
B. increase interest rates, decrease government spending and increase taxes.
C. decrease interest rates, increase government spending and decrease taxes.
D. decrease interest rates, decrease government spending and increase taxes.

Question 2

Which of the following will result in a shift in the demand curve for motorcycles?

A. falling petrol prices
B. higher motorcycle prices
C. a subsidy paid to producers of motorcycles
D. higher raw material prices in the production of motorcycles

Question 3

The most likely effect of a fall in commodity prices would be

A. a favourable movement in Australia's terms of trade and a depreciation of the Australian dollar.
B. a favourable movement in Australia's terms of trade and an appreciation of the Australian dollar.
C. an unfavourable movement in Australia's terms of trade and a depreciation of the Australian dollar.
D. an unfavourable movement in Australia's terms of trade and an appreciation of the Australian dollar.

Question 4

Which of the following concerning the measurement of Gross Domestic Product (GDP) is **not** correct?

A. GDP measures output at market prices.
B. GDP excludes illegal economic activity.
C. GDP measurements are subject to revision.
D. GDP excludes imputed rent on owner-occupied dwellings.

Question 5

If the federal government were always required to balance its budget, then in a time of economic downturn this might be achieved by

A. an increase in tax rates and a decrease in federal government expenditure.
B. a decrease in tax rates and an increase in federal government expenditure.
C. an increase in tax rates and an increase in federal government expenditure.
D. a decrease in tax rates and a decrease in federal government expenditure.

SECTION A – continued

Question 6

Government spending on the construction of a new public hospital is an example of

A. government social security outlays.

B. government current expenditure.

C. government capital expenditure.

D. government transfer payments.

Question 7

Unfavourable climatic conditions in fruit-growing areas in Victoria are most likely to lead to

A. an increase in demand for fruit and increased prices.

B. an increase in supply of fruit and decreased prices.

C. a decrease in demand for fruit and decreased prices.

D. a decrease in supply of fruit and increased prices.

Question 8

The table below shows selected data for an economy that uses a floating exchange rate.

Balance of payments item	$bn
Exports	180
Imports	205
Net services	10
Net income	–50
Current transfers	–5
Capital account	2
Financial account	68

For this economy the balance on goods and services is

A. –$15bn and the balance on current account is –$70bn.

B. –$35bn and the balance on current account is –$70bn.

C. $15bn and the balance on current account is $30bn.

D. $35bn and the balance on current account is $90bn.

Question 9

Which of the following would lead to a decrease in the supply of Australian dollars on the foreign exchange market?

A. an increase in imports into Australia and an increase in Australian interest rates

B. a decrease in exports from Australia and a decrease in Australian interest rates

C. a decrease in imports into Australia and an increase in Australian interest rates

D. an increase in exports from Australia and a decrease in Australian interest rates

Question 10

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

Year	**Unemployment rate %**
2006	4.8
2007	5.0
2008	5.5

In theory, which of the following is **not** likely to be a factor contributing to the trend in the unemployment rate shown in the table?

A. a fall in interest rates

B. a rise in labour force participation rates

C. a fall in business confidence

D. an increase in the size of the budget surplus

Question 11

In a market economy, a private producer is unlikely to provide street lighting because

A. there would be little demand for street lighting.

B. it would be too costly to produce such a service.

C. not all consumers could afford to pay for such a service.

D. it would be difficult to exclude non-payers from enjoying the benefits of the service.

Question 12

The implementation of microeconomic reform policies is likely to

A. have no effect on price stability and improve external stability.

B. improve price stability and have no effect on external stability.

C. improve price stability and improve external stability.

D. improve price stability and worsen external stability.

Question 13

Which of the following measures affecting equity in personal income distribution has an impact which is different from the others?

A. increasing the excise duty on petrol

B. increasing spending on public sector housing

C. increasing the tax-free threshold of personal income tax

D. increasing the amount of funding to government schools

Question 14

In Australia, which of the following would be most likely to increase as a result of a global economic downturn?

A. the cash interest rate

B. the employment rate

C. the current account deficit

D. the size of the government budget surplus

Question 15

A redistribution of income away from the poorest 10 per cent of society towards the richest 10 per cent of society will move the Lorenz Curve

A. closer to the 45 degree line and increase the Gini Coefficient.

B. closer to the 45 degree line and decrease the Gini Coefficient.

C. further from the 45 degree line and increase the Gini Coefficient.

D. further from the 45 degree line and decrease the Gini Coefficient.

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

a. Outline what is meant by an 'equitable distribution of personal income'.

2 marks

b. Explain how **each** of the following is likely to impact on equity in personal income distribution.

rising levels of unemployment in Australia

falling levels of inflation in Australia

4 marks

SECTION B – Question 1 – continued

c. Explain **two** government policy actions which are designed to achieve a more equitable distribution of personal income in Australia.

first policy action

second policy action

6 marks

Question 2

'Given the extraordinary economic developments in recent months, the immediate and overriding priority for fiscal policy at the current time is to support economic growth and jobs.'

Source: The Commonwealth Government Updated Economic and Fiscal Outlook

a. Outline the relationship between the economic objectives of strong, sustainable economic growth and full employment.

4 marks

b. Explain how the behaviour of economic growth in Australia over **the past year** has been influenced by each of the following.

one domestic demand or supply factor

one global demand or supply factor

4 marks

c. Discuss **two** examples of budgetary/fiscal policy action that have been used over **the past year** to support 'economic growth and jobs'.

example 1

example 2

4 marks

d. Explain how monetary policy has been used to complement budgetary/fiscal policy to support ‘economic growth and jobs’ over **the past year**.

4 marks

e. Compare the effectiveness of budgetary/fiscal policy and monetary policy in reducing the effects of an economic downturn or recession.

8 marks

Question 3

a. In a competitive market economy, explain how the market (price) mechanism allocates resources.

4 marks

b. The market (price) mechanism might fail to allocate resources efficiently in a competitive market economy. This is known as market failure. Some types of market failure addressed by government intervention include

- provision of 'public goods'
- externalities.

Using **one** of the above explain, with an example, why it is considered a type of market failure.

2 marks

c. Select **one** example of microeconomic reform policy that has been used over the past **five** years and discuss how it operates to achieve a more efficient allocation of resources.

4 marks

Question 4

a. On 28 February 2008, one Australian dollar purchased US$0.94. On 2 February 2009, one Australian dollar purchased US$0.63. Explain one factor that might have contributed to this change in the value of the Australian dollar.

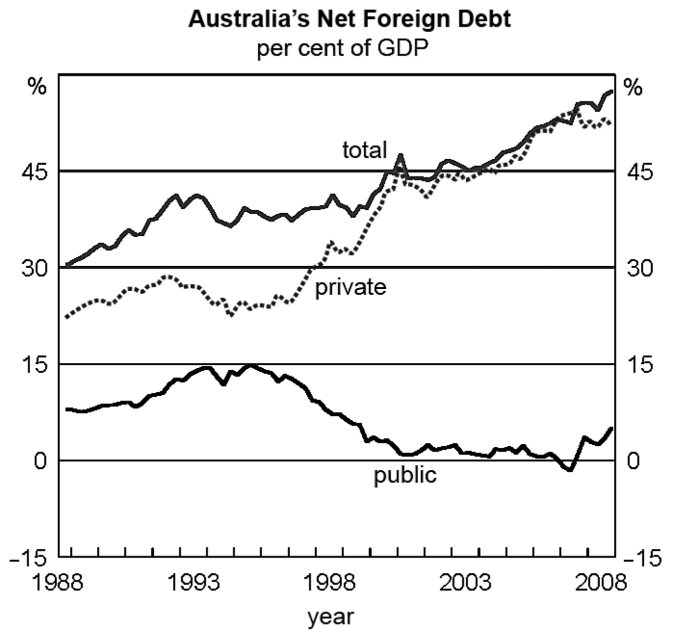
2 marks

b. Explain the likely effect of this change in the value of the Australian dollar on each of the following.

Australia's balance of payments on current account

Australia's inflation rate

4 marks



Source: ABS

c. The chart of Australia's Net Foreign Debt shows the trends for private, public and total foreign debt over recent years. Outline the difference between private foreign debt and public foreign debt as part of Net Foreign Debt. Describe the trend in both private and public foreign debt since the year 2000.

4 marks

d. The Commonwealth budget has moved into deficit and budget deficits are forecast for the next few years. Explain **one** likely impact this might have on Australia's total Net Foreign Debt.

4 marks

END OF QUESTION AND ANSWER BOOK

Extra space for responses

Clearly number all responses in this space.

TURN OVER

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.**