



Victorian Certificate of Education 2011

SUPERVISOR TO ATTACH PROCESSING LABEL HERE

STUDENT NUMBER

Letter

Figures

Words

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ECONOMICS

Written examination

Thursday 10 November 2011

Reading time: 11.45 am to 12.00 noon (15 minutes)

Writing time: 12.00 noon to 2.00 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 20 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

If the current rate of inflation is at the top of the Reserve Bank of Australia's (RBA) target range, which of the following might cause the RBA to tighten monetary policy?

- A. higher rates of economic growth and increasing rates of unemployment
- B. lower rates of economic growth and decreasing rates of unemployment
- C. lower rates of economic growth and increasing rates of unemployment
- D. higher rates of economic growth and decreasing rates of unemployment

Question 2

The labour force participation rate is

- A. the labour force as a percentage of the working-age population.
- B. the number of unemployed persons as a percentage of the labour force.
- C. the difference between the unemployment rate and the job vacancy rate.
- D. the number of unemployed persons as a percentage of the working-age population.

Question 3

Which combination of factors best explains why the growth in real Gross Domestic Product (GDP) per head has limitations in reflecting changes in living standards?

- i. it takes no account of possible changes in hours worked
 - ii. it gives no indication of the distribution of income
 - iii. it takes no account of the rate of population growth
 - iv. it gives no indication of the types of goods and services produced
 - v. it takes no account of the rate of inflation
- A. i, ii and iii
 - B. ii, iii and iv
 - C. ii, iv and v
 - D. i, ii and iv

Question 4

Which of the following might cause an expansion in the supply of bananas along the supply curve?

- A. a rise in interest rates
- B. a rise in income tax rates
- C. an increase in the price of bananas
- D. a cyclone destroys 95 per cent (%) of banana production

Question 5

If the RBA undertakes large sales of securities in the cash market, this will tend to

- A. increase liquidity and decrease interest rates.
- B. increase liquidity and increase interest rates.
- C. decrease liquidity and decrease interest rates.
- D. decrease liquidity and increase interest rates.

Question 6

Monopolistic competition is a market structure in which there is

- A. only one firm.
- B. a small number of firms.
- C. a large number of firms producing an identical product.
- D. a large number of firms producing a differentiated product.

Question 7

Which of the following is likely to make the distribution of income between persons **less** equal?

- A. an increase in the tax on luxury cars
- B. a reduction in the unemployment rate
- C. the removal of a means test on the 'Baby Bonus'
- D. a decrease in the rate for the Goods and Services Tax (GST)

Question 8

Consider the following hypothetical Balance of Payments data.

Current account	\$million
Exports of goods	110 000
Imports of goods	130 000
Net services	–200
Net income	–20 000
Net current transfers	–1 000

The Balance of Payments on current account shows a

- A. deficit of 41 200 million dollars.
- B. deficit of 1 200 million dollars.
- C. surplus of 218 800 million dollars.
- D. surplus of 1 200 million dollars.

Question 9

In a competitive market, an increase in the price of an input used in production will lead to

- A. a higher equilibrium price and a lower equilibrium quantity.
- B. a higher equilibrium price and a higher equilibrium quantity.
- C. a lower equilibrium price and a higher equilibrium quantity.
- D. a lower equilibrium price and a lower equilibrium quantity.

Question 10

In economics, which of the following is an example of investment expenditure?

- A. households purchase government securities
- B. firms purchase new capital equipment
- C. households purchase shares on the stock exchange
- D. firms make compulsory contributions to superannuation funds

Question 11

If A\$1 buys US\$1, and the Australian dollar depreciates by 10 per cent (%) against the US dollar, then after the depreciation A\$1 will buy

- A. US\$0.80
- B. US\$0.90
- C. US\$1.10
- D. US\$1.20

Question 12

If the Formula 1 Grand Prix in Melbourne causes disruption to local traffic and promotes the city of Melbourne overseas, economists will refer to these as examples respectively of

- A. a public good and information asymmetry.
- B. information asymmetry and a public good.
- C. a negative externality and a positive externality.
- D. a positive externality and a negative externality.

Question 13

The effect of a fuel levy on the market for international air flights 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 14

A positive balance on merchandise trade in a country's Balance of Payments necessarily implies that

- A. the terms of trade index is higher than the previous year.
- B. more goods are being exported than are being imported.
- C. an improvement has occurred in the balance on current account.
- D. the value of imports of goods is less than the value of exports of goods.

Question 15

Which of the following policy-mix options is likely to be implemented in an effort to decrease demand inflationary pressures in the economy?

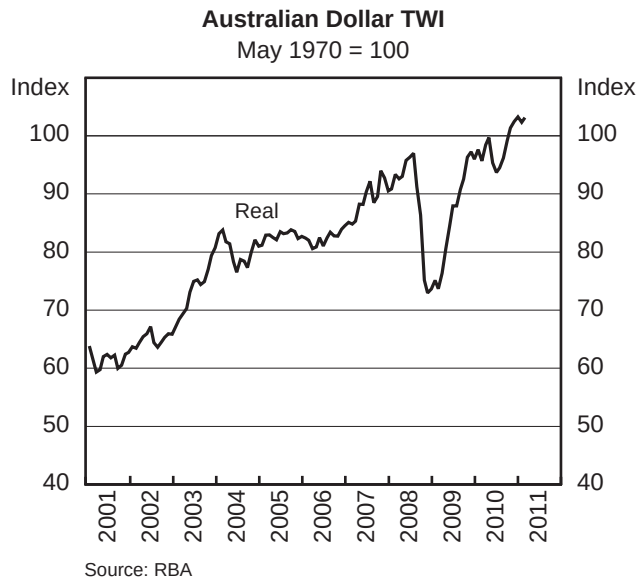
- A. an increase in personal income tax rates and an increase in the cash interest rate
- B. a decrease in personal income tax rates and an increase in the cash interest rate
- C. a decrease in personal income tax rates and a decrease in the cash interest rate
- D. an increase in personal income tax rates and a decrease in the cash interest rate

SECTION B – Written responses

Instructions for Section B

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

Question 1



- a. Describe the trend in the real value of the Australian dollar between 2009 and 2011.

2 marks

- b.** Outline two factors that might have influenced this trend.

factor 1 _____

factor 2 _____

4 marks

- c. Explain how this trend might affect Australia's key economic goals of

strong and sustainable economic growth _____

low inflation. _____

6 marks

Question 2

- a. Briefly explain the difference between an Australian Government budget deficit and a budget surplus.

2 marks

- b.** The Australian Government has stated it will restore the budget to surplus in coming years. Outline the economic rationale for this goal.

[illegible]

4 marks

- c. Explain two government policy actions that might be used to achieve the goal of restoring the budget to surplus in coming years.

policy action 1 _____

policy action 2 _____

6 marks

- d.** Severe flooding occurred across Queensland and Victoria in late 2010 and early 2011.
Outline a likely effect of this flooding on aggregate demand and another likely effect on aggregate supply.

likely effect on aggregate demand _____

likely effect on aggregate supply _____

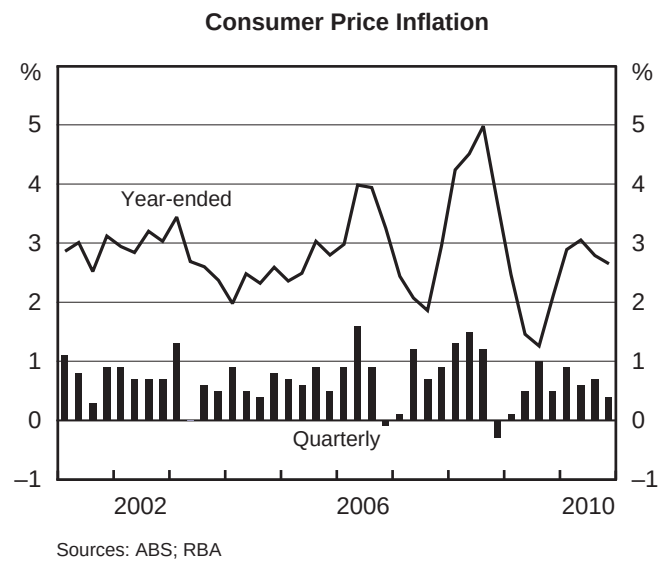
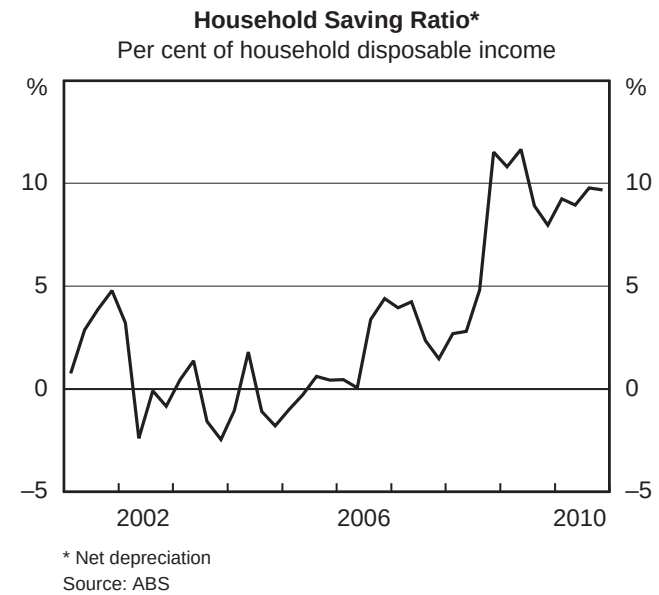
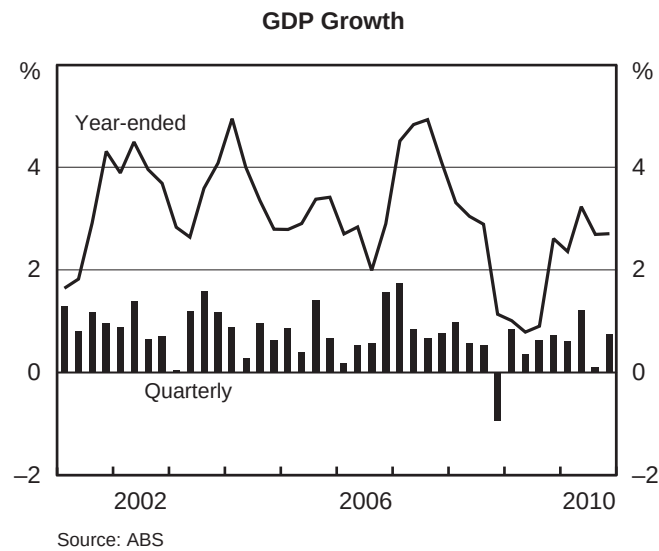
4 marks

- the implementation of a flood levy to assist affected communities to recover from the impact of the floods
- the implementation of a carbon tax

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SECTION B – continued
TURN OVER

Question 3



‘The cautious consumer has appeared. It’s what the Reserve Bank was looking for.’ Katie Dean, ANZ economist.
The Age, p. 6, 2 December 2010

- a.** Refer to the graphs. Identify and explain **one** piece of evidence that suggests consumers have become more cautious since 2006.

3 marks

- b.** Describe **one** effect on the economy that might result from consumers becoming more cautious.

3 marks

- [illegible]

SECTION B – continued

Question 4

- a.** ‘Economics studies how scarce resources are allocated among competing uses.’

Explain this statement.

2 marks

- b. With reference to the role of the price mechanism, describe how resources are allocated in a competitive market economy.

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4 marks

- c. i. Outline **one** reason why the government might intervene in a competitive market economy to redistribute income.

- ii. Using **one** example, explain how the government might intervene in a competitive market economy to redistribute income.

2 + 2 = 4 marks

- d. Select **one** example of a microeconomic reform policy.
Discuss how this policy might affect aggregate supply and external stability.

likely effect on aggregate supply _____

likely effect on external stability _____

6 marks

Clearly number all responses in this space.

[illegible]

TURN OVER

[illegible]