

COMMERCE PRESENTATIONS AND PUBLICATIONS



VCE ECONOMICS UNIT 2 2017 Examination

Reading time: 15 minutes

Writing time: 2 hours

Name _____

QUESTION AND ANSWER BOOK

Structure of book

Section	Number of questions	Number of questions to be answered	Number of Marks
A (MC Compulsory: Eco Growth & Environment, Equity & Efficiency)	10	10	20
B (SA Compulsory: Eco Growth & Environment)	3	3	25
C (SA Compulsory: Equity & Efficiency)	4	4	25
D (MC/SA Optional: Global Economic Issue: Globalisation)	4	4	20
E (MC/SA Optional: Global Economic Issue: Economic Development)	4	4	20
F (MC Optional: Eco Growth & Environment, Equity & Efficiency)	15	15	30
			Total 90 or 120 minutes

Note 1: Schools offering **90 minute exams** should use Parts A+B+C and one of parts D or E.
Note 2: Schools completing **2 hour exams** should use Parts A+B+C+F and one of parts D or E.

- Students are permitted to bring into the practice examination: 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 32 pages (including section F, and excluding MC Answer Sheets)
- Separate Multiple Choice Answer Sheets
- Additional space is available at the end of the book if you need extra paper to complete an answer.

Instructions

- Write your **name** in the space provided above on this page.
- Check that your **name** is written on your multiple choice answer sheet(s).
- All written responses must be in English.

At the end of this examination

Place the answer sheet(s) 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
MC QUESTIONS (20 MARKS)
Economic growth, long-term economic prosperity & environmental sustainability
+ Economic efficiency & equity

Question 1

Which of the following is not an injection into the circular flow of income?

- A. Investment
- B. Exports
- C. Savings
- D. Government spending

Use the following information to answer questions 2 and 3

This scenario describes the total economic activity occurring in an economy: In Year 1, a dairy farmer produces milk, which she sells to the dairy processor for \$100. The processor creates cheese, which she then sells for \$200 to the retailer. The retailer sells the cheese to consumers for \$400. In Year 2, assume that economic activity remains the same, except that the retailer now sells the cheese to consumers for \$500.

Question 2

Which of the following statements is false?

- a. The total value of production in Year 1 is \$400
- b. Gross National Income for the economy in Year 1 is \$400
- c. Real Gross Domestic Product for the economy in Year 1 is \$400
- d. Nominal Gross Domestic Product for the economy in Year 1 is \$700

Question 3

Identify the false statement from those below:

- A. The total value of production in Year 2 is \$500
- B. Real Gross Domestic Product for the economy in Year 2 is \$500
- C. Nominal Gross Domestic Product for the economy in Year 2 is \$500
- D. The growth rate of real GDP has been zero

Question 4

Which of the following combinations are all examples of factors affecting aggregate supply?

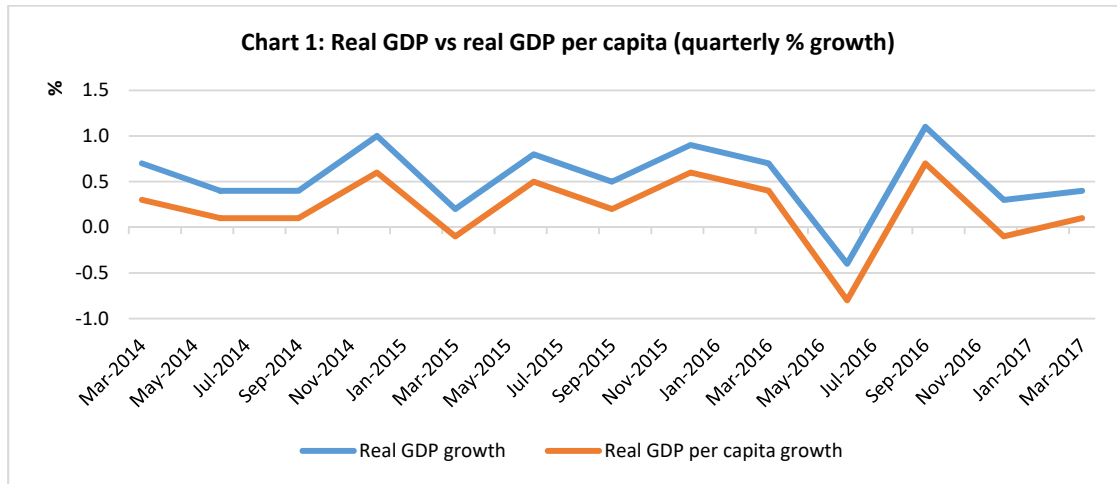
- A. Productivity, costs of production, business confidence
- B. Productivity, costs of production, interest rates
- C. Consumer confidence, cost of inputs, climatic conditions
- D. Business confidence, wage growth, company tax rates

Question 5

If Australia was experiencing very low rates of economic growth (a downturn), it is likely

- A. the government would decrease budget spending and/or increase taxes, and the RBA would decrease the cash rate (interest rates).
- B. the government would increase budget spending and/or cut taxes and the RBA would increase the cash rate (interest rates).
- C. the government would decrease budget spending and/or increase taxes and the RBA would increase the cash rate (interest rates).
- D. the government would increase budget spending and/or cut taxes, and the RBA would decrease the cash rate (interest rates).

Question 6



According to the data provided in Chart 1, which of the following statements is false?

- A. Material living standards are likely to have fallen between early 2016 and mid-2016
- B. In March 2017, Australia's output was greater than in September 2016
- C. Material living standards fell between May 2014 and September 2014
- D. Material living standards rose between March 2014 and March 2017, but non-material living standards may have fallen

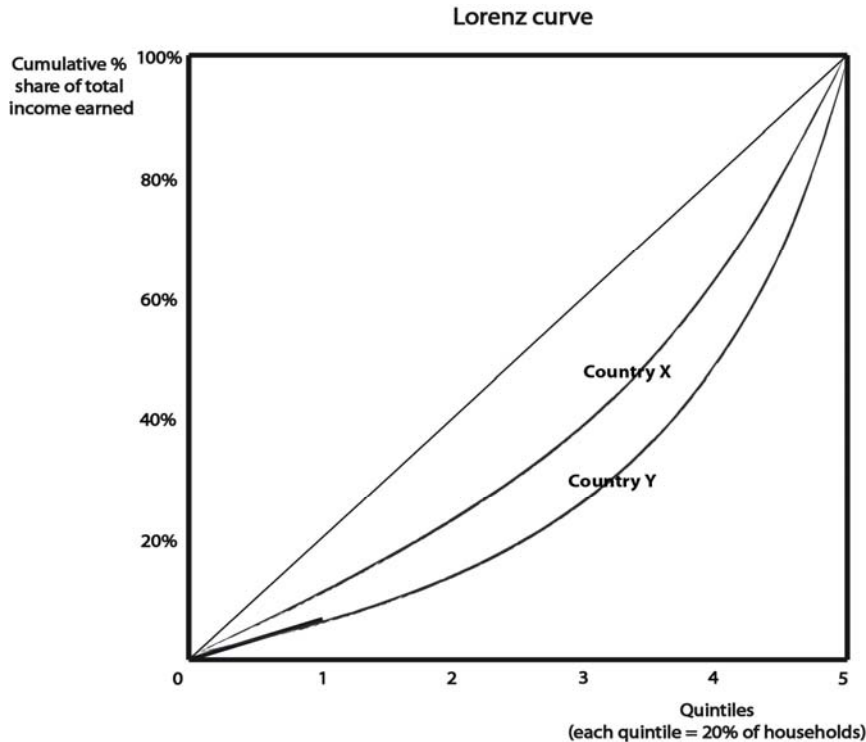
Question 7

All of the following examples are likely to contribute to more environmentally sustainable economic growth, apart from

- A. households installing solar panels on their rooves.
- B. government legislation to reduce the number of fishing licenses on issue.
- C. introduction of a tax on carbon emissions.
- D. government subsidies to coal-fired electricity generation.

Question 8

In relation to the Lorenz curves shown in the diagram below, which of the following statements is false?



- A. Country Y is likely to have a larger Gini coefficient than Country X
- B. Country X is likely to have a more unequal distribution of wealth than Country Y
- C. Country X has a more equal distribution of income than Country Y
- D. Country X is likely to have a more progressive income tax system than Country Y

Question 9

Which of the following factors is mostly likely to worsen equity in the distribution of equivalised household disposable income?

- A. The government introduces a tax on inheritances of over \$1 million
- B. The government increases funding for training for young, homeless people
- C. The unemployment rate rises from 5.6% to 7%
- D. The government removes excises (indirect taxes) on alcohol and petrol

Question 10

Assume that the government reduced the top marginal income tax rate and increased the GST rate. Which of the following would not be considered a benefit of such a policy?

- A. Increased tax receipts from all households, regardless of income
- B. Increased productive efficiency due to rising productivity
- C. Improved incentives for those on higher incomes to work harder
- D. The 'trickle down' effect as businesses and wealthy individuals take more entrepreneurial risks

**SECTION B:
SHORT ANSWER (25 MARKS)**

Economic growth, long-term economic prosperity & environmental sustainability

Question 1 (12 marks)

Table 1: Growth in real GDP (seasonally adjusted)

	Quarterly growth (%)	Annual growth (%)
Dec-2013	0.9	2.3
Mar-2014	0.8	3.0
Jun-2014	0.7	3.0
Sep-2014	0.4	2.8
Dec-2014	0.4	2.3
Mar-2015	1.0	2.5
Jun-2015	0.2	2.0
Sep-2015	0.8	2.4
Dec-2015	0.5	2.5
Mar-2016	0.9	2.4
Jun-2016	0.7	2.9
Sep-2016	-0.4	1.7
Dec-2016	1.1	2.3
Mar-2017	0.3	1.7

Source: ABS Cat No: 5206.0 - Australian National Accounts, March 2017

- a. Define economic growth and describe the overall trend in annual economic growth between June 2014 and March 2017. 2 marks**

There are various sources of forecasts for real GDP. They predict annual growth of between 1.5 and 3.0 per cent for the remainder of 2017 and into 2018. Australia's long-term average GDP growth rate, and the rate most desired by government, is between 3.0 and 3.25 per cent.

- b. Explain one economic benefit of economic growth. 2 marks**

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- d. Explain why growth in real GDP per capita is used to measure improvements in material living standards and use data from Table 2 to respond to the claim that material living standards in Australia improved between 2013 and 2017. 3 marks**

Table 2: Growth in real GDP per capita (seasonally adjusted)

	Quarterly growth (%)	Annual growth (%)
Dec-2013	0.5	0.7
Mar-2014	0.4	1.4
Jun-2014	0.3	1.4
Sep-2014	0.1	1.3
Dec-2014	0.1	0.9
Mar-2015	0.6	1.1
Jun-2015	-0.1	0.7
Sep-2015	0.5	1.1
Dec-2015	0.2	1.2
Mar-2016	0.6	1.2
Jun-2016	0.4	1.7
Sep-2016	-0.8	0.4
Dec-2016	0.7	0.9
Mar-2017	-0.1	0.2

Source: ABS Cat No: 5206.0 - Australian National Accounts, March 2017

- e. Describe one alternative indicator (measure) of living standards and explain why the indicator may provide a better measure of living standards than real GDP per capita.

2 marks

Question 2 (6 marks)

Describe how the rate of economic growth is likely to be affected by each of the following economic events.

- a. An increase in the Medicare levy from 2% to 2.5%, as proposed in Budget 2017/18

2 marks

- b. **Appreciation of the Australian dollar exchange rate from 0.73USD in January to 0.79USD in August 2017.** **2 marks**

- c. **The growth in unit labour costs (one measure of the cost of employing labour) since early 2016 is shown in Chart 2 below.** **2 marks**

Chart 2: Unit Labour Costs Growth



Source: RBA Chart pack August 2017

Question 3 (7 marks)

The South Australian Government has a target that 50 per cent of the state's energy will be supplied from renewable sources by 2025. In mid-2017, it reported that 53 per cent of its energy has come from sun and wind-based sources. However, concerns over the sustainability of the network and interruptions to renewable energy generation (highlighted by a statewide blackout in late 2016) have prompted the South Australian Government to partner with Tesla to build the world's largest battery to store energy from a nearby wind farm.

- a. Explain why there is an inevitable trade-off between the pursuit of economic growth and environmental sustainability 2 marks

- b. Outline how economic growth can lead to negative externalities. 2 marks

- c. Explain how one government policy action can be used to address the environmental effects of economic growth. In your response, discuss a specific example. You can use the example provided or one you have studied. 3 marks

SECTION C:

SHORT ANSWER (25 MARKS)

Economic efficiency and equity

Question 1 (13 marks)

Table 1: Measures of income and wealth distribution, Australia, 2011-12 and 2013-14

Quintile	2011-12	2011-12	2011-12	2013-14	2013-14	2013-14
	Mean equivalised disposable household <u>income</u> per week (\$)	Quintile share, total equivalised disposable household <u>income</u> (%)	Quintile share, total estimated net <u>worth</u> * (%)	Mean equivalised disposable household <u>income</u> per week (\$)	Quintile share, total equivalised disposable household <u>income</u> (%)	Quintile share, total estimated net <u>worth</u> * (%)
Lowest	363	7.5	0.9	375	7.5	0.9
Second	610	12.6	5.2	615	12.3	5.1
Third	832	17.3	12.0	843	16.9	11.4
Fourth	1110	23.0	21.0	1119	22.4	20.5
Highest	1903	39.5	60.8	2037	40.8	62.1
Gini coefficient		0.320	0.593		0.333	0.605

Source: ABS Cat. No. 6523.0, 'Household Income and Wealth, Australia, 2013-14

*The ABS uses 'net worth' to measure distribution of wealth in Australia. It refers to the value of all assets owned by a household (e.g. property owned outright) minus the value of all liabilities (e.g. debt owed on property).

'Reserve Bank governor, Philip Lowe, [said] inequality in Australia is getting worse. ... Speaking at an event supporting the Anika Foundation, he said the gap between the rich and poor has widened in recent years, but made the distinction between "wealth" and "income" inequality. ... Dr Lowe said income inequality was also rising, but not as badly as wealth inequality. "Income inequality has drifted up a little but not very much," he said.'

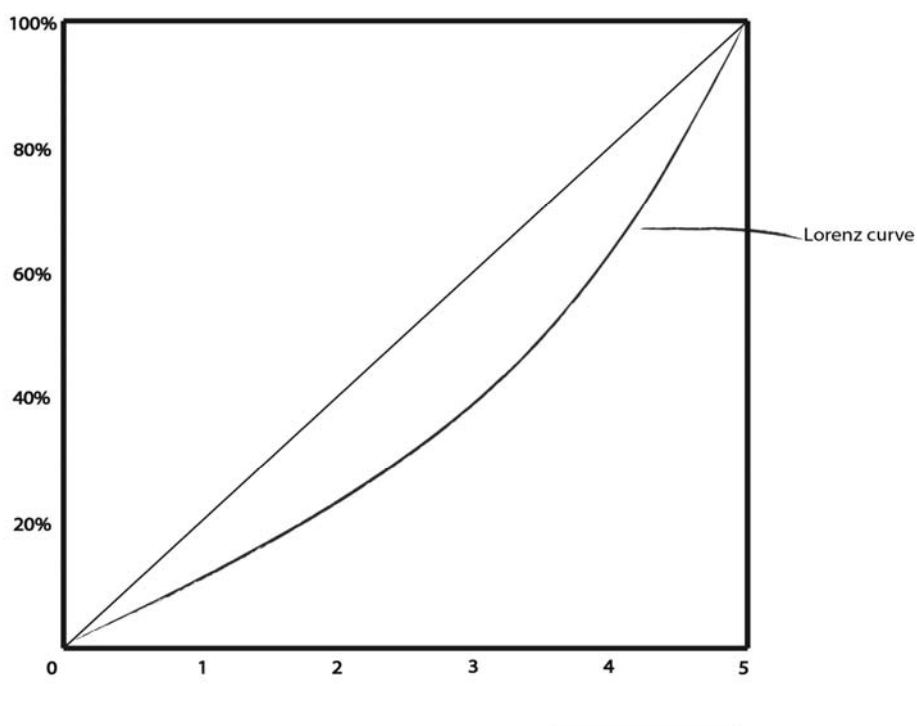
Extract from: 'RBA governor says inequality getting worse, contradicting Scott Morrison', ABC online, 27th July 2017, <http://www.abc.net.au/news/2017-07-26/rba-says-inequality-getting-worse/8746594>

a. Define 'income' and 'wealth' and explain how wealth can increase income.

3 marks

c. On the diagram below, label the vertical and horizontal axis and show how the Lorenz curve is likely to shift if the Gini coefficient continues on its current path into the future. 2 marks

Lorenz curve (Equivalised Disposable Household Income)



d. Explain the likely impact on the distribution of income of the following government budgetary policy decisions:

- i. Increased spending on training and education**
- ii. An increase in the GST rate from 10% to 15%**

4 marks

i. Increased spending on training and education

ii. An increase in the GST rate from 10% to 15%

Explain how a decision by the government to increase the top tax rate paid by high-income earners illustrates the potential conflict between improving efficiency and improving equity in income distribution.

[illegible]

Question 4 (3 marks)

Explain how the increase in tobacco excise could improve efficiency in allocation of resources while at the same time reducing equity in the distribution of income.

[illegible]

SECTION D**PART 1: MULTIPLE CHOICE (6 MARKS)****GLOBAL ECONOMIC ISSUE: ECONOMIC GLOBALISATION****Question 1**

Which of the following is not considered a factor contributing to economic globalisation?

- A. The desire of large businesses to take advantage of improved economies of scale
- B. Improvements in transportation technologies, information technology and global communications
- C. Recent decisions by some governments to restrict the flow of labour and trade, and favour local producers
- D. Savings offered by differentials in wage rates across different countries

Question 2

Australia has been affected by globalisation in all of the following ways, except

- A. Decreased costs and more availability of imports, which has benefitted households and some businesses
- B. Jobs have been gained in service industries, because technology has allowed more Australian companies to provide call centre services for overseas corporations
- C. Jobs have been lost in manufacturing, as Australian companies have relocated manufacturing facilities overseas in response to lower labour costs
- D. National income has risen as mining companies increased output to meet growing demand from China, India and other rapidly-growing economies

Question 3

Which of the following is least likely to be considered a benefit of the rise of multinational corporations under globalisation?

- A. Multinational corporations often pay higher wages than local producers in developing countries
- B. Multinational corporations are increasingly being pressured by customers to adopt Fairtrade practices
- C. Multinational corporations increase business investment and capital stock in countries where they operate
- D. Multinational corporations often repatriate their after-tax profits to their country of origin

SECTION D

PART 2: STRUCTURED QUESTIONS (14 MARKS)

GLOBAL ECONOMIC ISSUE: ECONOMIC GLOBALISATION

Question 4 (9 marks)

a. Define economic globalisation

1 mark

b. Explain how the following factors have contributed to the continuing growth of economic globalisation.

**i. Deregulation (reduction of government intervention) of key markets
(including for labour, products and finance)**

ii. Improvements in information and communication technologies **4 marks**

i. Deregulation of key markets

ii. Improvements in information and communication technologies

- c. Critics of economic globalisation claim that one reason globalisation is controversial is that it has created 'winners' and 'losers'.

Identify one stakeholder group in Australia that has benefited from globalisation and one stakeholder group that has been disadvantaged by the spread of economic globalisation. For each group, explain how they have been impacted by economic globalisation.

4 marks

'Winner/s' from globalisation:

'Loser/s' from globalisation:

SECTION E
PART 1: MULTIPLE CHOICE (6 MARKS)
GLOBAL ECONOMIC ISSUE: PROBLEMS FACING DEVELOPING NATIONS

Question 1

Of the strategies listed, which is unlikely to promote economic growth and development for developing nations?

- A. The use of tariffs and subsidies by developed nations, to restrict imports of primary products
- B. Promoting the rule of law and a reduction in corruption
- C. Increased support to help improved education and health levels in the workforce
- D. Bilateral foreign aid used to develop governance and promote the role of women in the economy

Question 2

Which of the following is not an example of Official Development Assistance (foreign aid)?

- A. The Australia government sends Australian teachers to provide training for teachers in Papua New Guinea primary schools
- B. A \$10 million dollar donation from the Australian government to Oxfam Australia to provide support for residents of Vanuatu affected by Cyclone Donna
- C. Australian private hospital operator, Healthscope Ltd, opens a new hospital in China
- D. Australian payments to the UNHRC to operate refugee camps on the Syrian border

Question 3

Which of the following statements is least accurate?

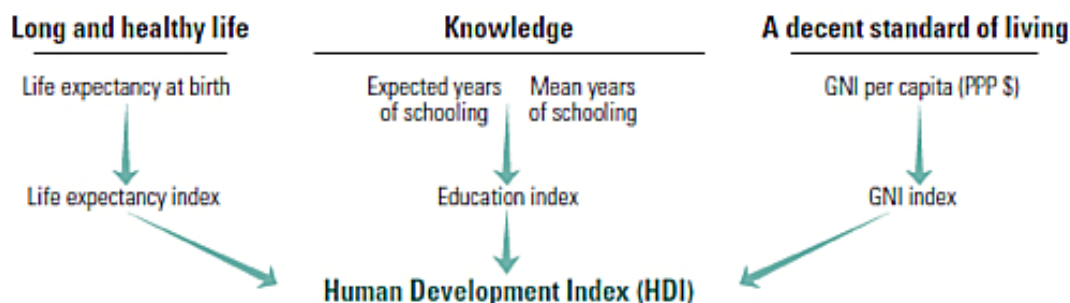
- A. High levels of indebtedness have contributed to worsening conditions in some developing countries
- B. Debt should be avoided by developing countries, as it usually leads to worsening conditions
- C. Insufficient savings can be a cause and effect of poverty
- D. High levels of income inequality exist in many less developed economies

SECTION E
PART 2: STRUCTURED QUESTIONS (14 MARKS)
GLOBAL ECONOMIC ISSUE: PROBLEMS FACING DEVELOPING NATIONS

Question 4 (14 marks)

Examine Figure 1 and Table 1 below, and answer the questions that follow.

Figure 1: Dimensions of the Human Development Index (HDI)



Source: Human development report 2016, United Nations Development Programme, 2016, <http://hdr.undp.org/en/content/human-development-index-hdi>

Table 1: Various countries, HDI score, 2015

Country	Human Development Index score (2015)	Country	Human Development Index score (2015)
Argentina	0.827	Haiti	0.493
Australia	0.939	Indonesia	0.689
Belgium	0.896	Lao	0.586
Benin	0.485	Mexico	0.762
Bhutan	0.607	Niger	0.353
Bolivia	0.674	Philippines	0.682
Brazil	0.754	Russian Federation	0.804
Burkina Faso	0.402	Rwanda	0.498
Cambodia	0.563	Slovenia	0.890
Cameroon	0.518	South Africa	0.666
Chile	0.847	Sri Lanka	0.766
China	0.738	Turkey	0.767
Denmark	0.925	United Kingdom	0.909
Dominican Republic	0.722	United States	0.920
Finland	0.895		

Source: Human development report 2016, United Nations Development Programme, 2016, <http://hdr.undp.org/en/content/human-development-index-hdi>

a. Define economic development.

1 mark

Problem 2:

- e. Identify and explain one type of Official Development Assistance (ODA) – also called foreign aid - that could be used to improve the HDI score of the most lowest ranked countries. **2 marks**

- f. Explain one economic reason why Australia chooses to provide Official Development Assistance (ODA). **2 marks**

Extra space for responses

Clearly number all responses in this space

[illegible]

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SECTION F

MULTIPLE CHOICE QUESTIONS [11-25]

Question 11

If economic growth is negative, overall living standards may still increase if

- A. nominal GDP per capita falls
- B. there is increased access to health and education services
- C. there is increased levels of pollution and environmental damage
- D. population decreases by the same amount as economic growth

Question 12

Of the following events, which is not likely to cause an increase in the aggregate demand for goods and services?

- A. A decrease in the value of the Australian dollar (depreciation of the exchange rate)
- B. A decrease in interest rates
- C. A decrease in income tax rates
- D. A decrease in consumer confidence

Question 13

The main cause of income inequality is

- A. Low income earners not receiving enough transfer income
- B. Government provision of social welfare payments leading to people not working hard enough
- C. Luck
- D. Higher income earners having skills that get them higher paid jobs

Question 14

Disposable income is defined as

- A. Private or market incomes plus direct cash benefits received from governments
- B. Gross income less direct taxes plus indirect government benefits provided in the form of goods and social services
- C. Gross income less the direct taxes levied by governments
- D. Gross incomes less direct and indirect taxes plus indirect government benefits

Question 15

A negative externality in production is most accurately described as when

- A. the costs associated with production increase over time
- B. a service being consumed imposes a cost on someone who is not involved in the consumption (e.g. loud music at a party affecting neighbours)
- C. the level of output of goods or services cannot keep up with spending, causing inflation
- D. all the costs of production (including those experienced by people not involved in production or consumption) are not paid for by the producer of a product

Question 16

Which of the following is a factor affecting both aggregate demand and aggregate supply?

- A. business confidence
- B. productivity
- C. interest rates
- D. favourable weather conditions

Question 17

The rate of economic growth in Australia is likely to fall in response to

- A. Higher commodity prices
- B. A reduction in interest rates
- C. A depreciation of the Australian dollar exchange rate
- D. A reduction in the rate of economic growth in China

Question 18

Which of the following is most likely to indicate an improvement in material living standards?

- A. increased incidence of crime
- B. increased carbon emissions per capita
- C. increased real GDP per capita
- D. increased nominal wages

Question 19

Examine the two D/S diagrams demonstrating different types of labour markets and choose the most correct statement.

Diagram A

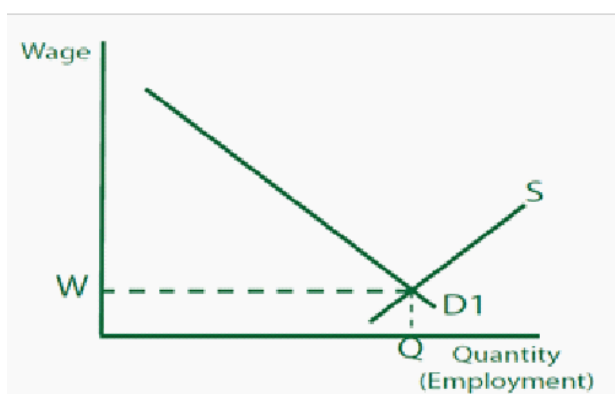
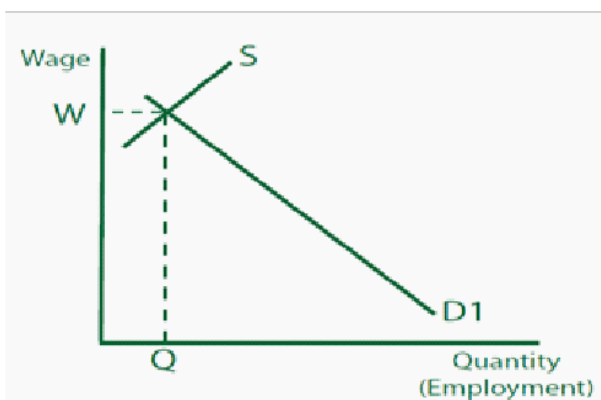


Diagram B



- A. Diagram A shows a labour market where the supply of labour is low relative to demand, leading to low wages
- B. Diagram A shows a labour market where the supply of labour is high relative to demand, leading to low wages
- C. Diagram B shows a labour market where demand for labour is high relative to supply, leading to low wages
- D. Diagram B shows a labour market where supply of labour is high relative to demand, leading to high wages

Question 20

An equitable distribution of income refers to

- A. each member of the economy receiving an equal share of total income
- B. the way in which income is shared among the members of an economy
- C. a distribution of income that allows everyone to receive sufficient income for a dignified life
- D. the elimination of relative poverty

Question 21

If Fairwork Australia were to reduce the minimum wage significantly, which of the following is the most likely result?

- A. A lower Gini coefficient
- B. A movement outwards of the Lorenz curve
- C. A more equal distribution of income
- D. A decrease in absolute poverty

Question 22

Examine the following information and answer the question that follows.

Distribution of income by quintiles

Quintiles	Percentage share of income		
	Year 1	Year 2	Year 3
Lowest 20%	5	5	3
2nd	11	10	9
3rd	14	15	15
4th	25	24	24
Highest 20%	45	46	49
Gini Coefficient	0.31	0.32	0.35

The table above reveals that

- A. The highest income group has increased their share of total income between Year 1 and Year 3
- B. The lower income groups have maintained their share of total income between Year 1 and Year 3
- C. The lower incomes groups have experienced a fall in the real income between Year 1 and Year 3
- D. Income distribution became more equitable between Year 1 and Year 3.

Question 23

Which of the following factors would have an effect on Australia's future rate of economic growth different to the other three?

- A. An increase in the rate of permanent skilled immigration
- B. An increase in the average age of the population
- C. An increase in the labour force participation rate
- D. An increase in government spending on early childhood education

Question 24

An improvement in productive (technical) efficiency would result from each of the following events, apart from

- A. Increased spending on worker training and education
- B. Increased expenditure on capital
- C. Workers' real wages growing more slowly than the increase in labour productivity
- D. Increased costs of raw materials

Question 25

In relation to the Australian economy during 2017, which of the following statements is most accurate?

- A. Economic growth has been above 3%, inflation has been below 3% and the Australian dollar has ranged between 0.70USD and 0.80USD
- B. Economic growth has been below 3%, inflation has been above 3% and the Australian dollar has ranged between 0.75USD and 0.85USD
- C. Economic growth has been below 3%, inflation has been below 3% and the Australian dollar has ranged between 0.70USD and 0.80USD
- D. Economic growth has been above 3%, inflation has been above 3% and the Australian dollar has ranged between 0.75USD and 0.85USD

END OF QUESTION AND ANSWER BOOKLET



VCE ECONOMICS UNIT 2 2017

Examination

SECTION A

Economic growth, long-term economic prosperity & environmental sustainability and
Economic efficiency & equity

(10 MULTIPLE CHOICE)

Multiple Choice Answer Sheet

Name _____

Answer the 10 questions by shading only one box (either A, B, C or D) in each of the 10 rows below:

1	A	B	C	D
2	A	B	C	D
3	A	B	C	D
4	A	B	C	D
5	A	B	C	D
6	A	B	C	D
7	A	B	C	D
8	A	B	C	D
9	A	B	C	D
10	A	B	C	D



VCE ECONOMICS UNIT 2 2017

Examination

SECTION D (Part 1)

Global Economic Issue: Economic Globalisation

(3 MULTIPLE CHOICE)

Multiple Choice Answer Sheet

Name _____

Answer the 3 questions by shading only one box (either A, B, C or D)
in each of the 3 rows below:

1	A	B	C	D
2	A	B	C	D
3	A	B	C	D



VCE ECONOMICS UNIT 2 2017

Examination

SECTION E (Part 1)

Global Economic Issue:

Problems facing developing nations

(3 MULTIPLE CHOICE)

Multiple Choice Answer Sheet

Name _____

Answer the 3 questions by shading only one box (either A, B, C or D) in each of the 3 rows below:

1	A	B	C	D
2	A	B	C	D
3	A	B	C	D



VCE ECONOMICS UNIT 2 2017

Examination

SECTION F

Economic growth, long-term economic prosperity & environmental sustainability and
Economic efficiency & equity

(15 MULTIPLE CHOICE)

Multiple Choice Answer Sheet

Name _____

Answer the 15 questions by shading only one box (either A, B, C or D) in each of the 15 rows below:

11	A	B	C	D
12	A	B	C	D
13	A	B	C	D
14	A	B	C	D
15	A	B	C	D
16	A	B	C	D
17	A	B	C	D
18	A	B	C	D
19	A	B	C	D
20	A	B	C	D
21	A	B	C	D
22	A	B	C	D
23	A	B	C	D
24	A	B	C	D
25	A	B	C	D