

VCE Economics

Written examination – End of year

Sample questions

SECTION A – Multiple-choice questions

Question 1

An unregulated market will tend to over-allocate resources towards the production of

- A. public goods.
- B. government services.
- C. goods that cause negative production externalities.
- D. services that convey positive production externalities.

Question 2

Common access resources tend to be over-consumed in an unregulated market because they are

- A. rivalrous and excludable in consumption.
- B. rivalrous and non-excludable in consumption.
- C. non-rivalrous and excludable in consumption.
- D. non-rivalrous and non-excludable in consumption.

Question 3

The government recently increased the excise on tobacco products by 12.5% per year for four years. This is likely to lead to

- A. a decrease in the equilibrium price and a decrease in demand.
- B. a decrease in the equilibrium price and a contraction in supply.
- C. an increase in the equilibrium price and an expansion in supply.
- D. an increase in the equilibrium price and a contraction in demand.

Question 4

The type of unemployment caused by a downturn in the business cycle is known as

- A. cyclical unemployment.
- B. seasonal unemployment.
- C. structural unemployment.
- D. hard-core unemployment.

Question 5

Intertemporal efficiency refers to allocating resources to produce

- A. investment goods.
- B. non-durable consumer goods.
- C. goods and services for export.
- D. goods for current consumption and future consumption.

Question 6

Consider the following data for Country Y.

	2014	2015	2016	2017
Consumer Price Index (CPI)	100	103	105	104

Based on the information above, which one of the following statements is **not** true?

- A. The country experienced deflation in 2017.
- B. The country experienced deflation in 2016 and 2017.
- C. Over the four-year period, the general level of prices rose.
- D. The inflation rate in 2015 was higher than it was in 2016.

Question 7

The effect of an increase in consumer confidence is likely to lead to

- A. a decrease in the general level of prices and a decrease in real GDP.
- B. an increase in the general level of prices and a decrease in real GDP.
- C. a decrease in the general level of prices and an increase in real GDP.
- D. an increase in the general level of prices and an increase in real GDP.

Question 8

Which one of the following is a weakness of using monetary policy to achieve the Australian Government's macroeconomic goals?

- A. Monetary policy does not require political approval.
- B. Indebted households are very sensitive to interest rate changes.
- C. Banks are not legally required to pass on any changes in the cash rate.
- D. Monetary policy can be changed relatively quickly in response to changing economic circumstances.

Question 9

Which one of the following discretionary budgetary policy initiatives is unlikely to increase aggregate supply?

- A. a reduction in company taxes
- B. a reduction in pensions for retired couples
- C. increased spending on preventive healthcare
- D. the introduction of new subsidies for entrepreneurial pursuits

Question 10

Which one of the following is unlikely to cause an increase in Australia's terms of trade?

- A. an appreciation of the exchange rate
- B. a decrease in the world supply of coal
- C. an increase in the use of solar energy in the world economy
- D. an increase in the real incomes of Australia's major trading partners

Question 11

Which one of the following budgetary policy areas will have an impact on aggregate supply in a manner that is different from the other three?

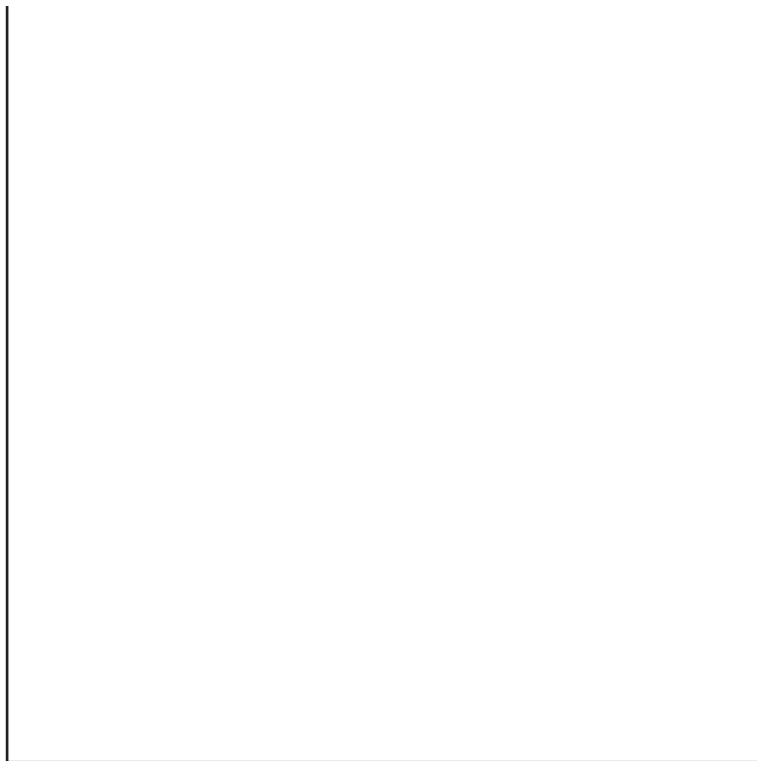
- A. subsidies
- B. investment in infrastructure
- C. research and development grants
- D. spending on training and education

SECTION B – Written responses**Question 1** (12 marks)

Consider the following data for hamburgers sold in Melbourne’s central business district each day.

Price	Quantity demanded (per day)	Quantity supplied (per day)
\$2	120 000	0
\$4	100 000	20 000
\$6	80 000	40 000
\$8	60 000	60 000
\$10	40 000	80 000

- a. Referring to the data for hamburgers, construct a suitably labelled demand and supply diagram to show how the equilibrium price and quantity traded are determined. 4 marks



- b. i.** Describe **one** factor that could lead to an increase in demand for hamburgers.

2 marks

- ii.** Draw the change in demand, caused by the factor described above, on the diagram constructed in **part a**.

1 mark

- iii.** Describe how the market for hamburgers will move from the initial equilibrium to the new equilibrium following the change in demand.

3 marks

- c. Explain **one** factor that might cause a decrease in the equilibrium price of hamburgers and result in a movement along the demand curve.

2 marks

Question 2 (9 marks)

‘Free and competitive markets should lead to an allocation of resources that maximises society’s wellbeing.’

- a. With reference to the statement above, evaluate the role of markets in achieving an efficient allocation of resources.

6 marks

- b.** Explain why an economy must achieve productive efficiency in order to achieve allocative efficiency.

3 marks

Question 3 (3 marks)

Choose **one** example of a common access resource and explain why the market system tends to over-consume common access resources.

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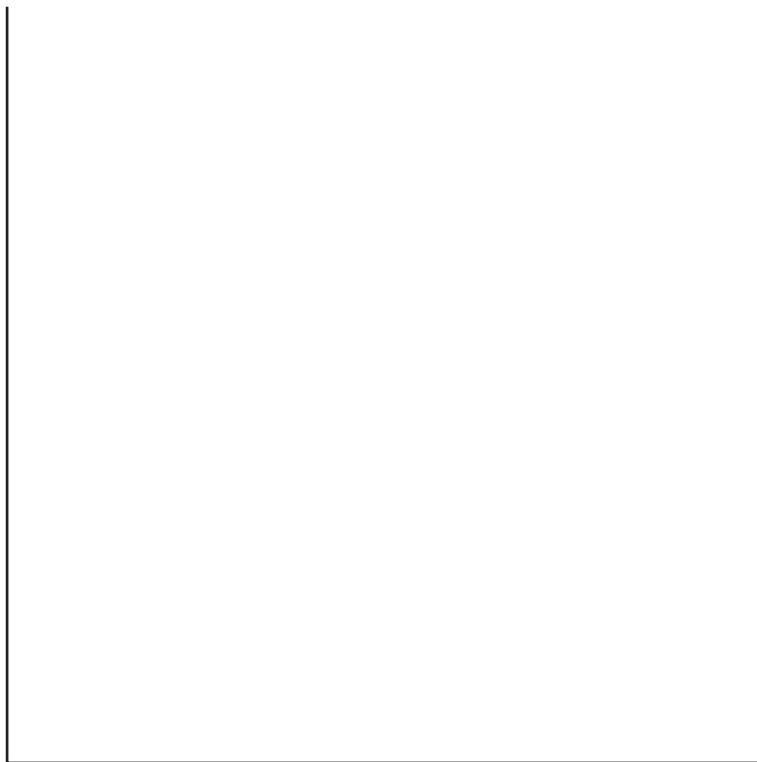
Question 4 (3 marks)

Identify and explain **one** form of government intervention that has been, or could be, utilised to reduce the excessive consumption of a common access resource.

[illegible]

Question 5 (7 marks)

- a. i. Describe **one** example of government intervention in a market that has led to a change in the equilibrium price and/or quantity of a good or service. 2 marks
- ii. Show how the market has changed on the axes provided below. 2 marks



- b. Describe **one** example of government intervention in markets that has led to a decrease in the efficiency of resource allocation.

3 marks

[illegible]

Question 6 (8 marks)

Explain how changes in each of the following factors might affect the general level of prices and real GDP.

- A depreciation of the exchange rate

[illegible]

- An increase in productivity

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Question 7 (6 marks)

From July 2015 to July 2016, the Australian unemployment rate fell from 6.3% to 5.7%. Despite this fall, the underemployment rate remained fairly steady at a record high of 8.7%.

- a.** Distinguish between the unemployment rate and the underemployment rate.

3 marks

- b.** Explain why the unemployment rate may have fallen even though the underemployment rate remained fairly steady.

3 marks

Question 8 (3 marks)

The following table shows data for a hypothetical economy.

	Nominal GDP (\$ billion)	Real GDP (\$ billion)
2015	100	100
2016	105.3	102.3

- a. Using the information above, calculate the rate of economic growth for the hypothetical economy.

1 mark

- b. Explain **one** reason why economic growth might be associated with a decrease in living standards.

2 marks

Question 9 (5 marks)

Consider the following data for an economy over a two-year period. The prices given reflect the average for the relevant year.

	2015	2016
Index of export prices	100	90
Index of import prices	100	120

- a. Using the data above, calculate Australia's terms of trade in 2015 and 2016. Show calculations as part of your answer.

2 marks

Terms of trade	Calculation	Answer
2015		
2016		

- b. Explain how the change in the terms of trade, based on the calculations made in **part a.**, could affect the economy's inflation rate.

3 marks

[illegible]

- b. Given the trend movement in the exchange rate over the six months ending November 2016, describe the likely effect of this change on:
- the goal of strong and sustainable economic growth
 - living standards.

6 marks

[illegible]

Question 11 (12 marks)

- a.** Explain how the Australian Government has utilised **two** discretionary stabilisers as part of the 2016–2017 Budget to achieve the goal of strong and sustainable economic growth. 4 marks

- b.** Explain how the Reserve Bank of Australia has utilised monetary policy to support the Australian Government in its aim to achieve strong and sustainable economic growth. 4 marks

- c. Despite the government's efforts to promote strong and sustainable economic growth, the 2016 September quarter's GDP fell by 0.5%.

With reference to at least **one** weakness of budgetary policy and **one** weakness of monetary policy, explain why the utilisation of budgetary policy and monetary policy was not sufficient to achieve the government's goal of strong and sustainable economic growth.

4 marks

Question 12 (8 marks)

The government can utilise a combination of budgetary policy and monetary policy to pursue its domestic macroeconomic goals.

Evaluate the relative strengths and weaknesses of budgetary policy and monetary policy in achieving the economic goal of full employment.

[illegible]

Question 13 (10 marks)

Over the last four years, Australia has fallen in the Global Competitiveness Report's rankings as calculated by the World Economic Forum.

- a.** Explain how tax reform (changes to Australia's taxation system) could improve Australia's rate of productivity growth.

2 marks

- b.** Describe **one** aggregate supply policy, other than tax reform, that could be introduced or modified to promote an increase in productivity and aggregate supply.

4 marks

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- c. Discuss **one** strength and **one** weakness of using aggregate supply policies to achieve the government's macroeconomic goals.

4 marks

[illegible]

Answers to multiple-choice questions

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