

Victorian Certificate of Education
2017

SUPERVISOR TO ATTACH PROCESSING LABEL HERE

STUDENT NUMBER

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ECONOMICS
Written examination

Thursday 2 November 2017

Reading time: 2.00 pm to 2.15 pm (15 minutes)

Writing time: 2.15 pm to 4.15 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	15
B	5	5	65
			Total 80

- 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 correction fluid/tape.
- No calculator is allowed in this examination.

Materials supplied

- Question and answer book of 24 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 1; 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

Relative scarcity can best be defined as

- A. wants in relation to needs.
- B. wants in relation to resources.
- C. unlimited wants in relation to limited resources.
- D. limited wants in relation to unlimited resources.

Question 2

Which one of the following might help to reduce a government's budget deficit?

- A. a slowing of growth in the world economy
- B. reducing the marginal rate of personal income tax
- C. removing the means test on some items of government welfare
- D. removing the exemptions of education and food from the goods and services tax (GST)

Question 3

Which one of the following is unlikely to increase productivity?

- A. increasing tariffs
- B. labour skills training
- C. innovation in work practices
- D. investment in physical capital

Question 4

What would be the effect on the market for Good X if there were a rise in the price of a substitute good?

- A. The demand curve would shift left and the equilibrium price of Good X would decrease.
- B. The supply curve would shift left and the equilibrium price of Good X would increase.
- C. The demand curve would shift right and the equilibrium price of Good X would increase.
- D. The supply curve would shift right and the equilibrium price of Good X would decrease.

Question 5

What is the most likely effect of a decrease in the tariff on an imported good?

- A. a loss of jobs for overseas suppliers
- B. a fall in the price of a competing domestic good
- C. a rise in the price of a competing domestic good
- D. an increase in employment in the domestic sector

Question 6

Over time, which one of the following would most likely increase aggregate supply in the economy?

- A. reducing the age pension
- B. reducing skilled migration
- C. reducing the retirement age
- D. reducing funding for apprenticeships

Question 7

Consider the following hypothetical Consumer Price Index (CPI) data.

Year	CPI
1	100
2	110
3	121

The increase in the annual rate of inflation from Year 2 to Year 3 is

- A. 10%
- B. 11%
- C. 20%
- D. 21%

Question 8

According to the five-sector circular flow model of the economy, a rise in the total value of injections relative to the total value of leakages is most likely to result in

- A. a decrease in consumption and a decrease in levels of aggregate demand.
- B. a decrease in total incomes and a rise in the unemployment rate.
- C. neither a decrease in consumption, levels of aggregate demand and total incomes, nor a rise in the unemployment rate.
- D. a decrease in consumption, levels of aggregate demand and total incomes, and a rise in the unemployment rate.

Question 9

The following information refers to a hypothetical country's terms of trade.

Year	Import price index	Export price index
1	100	100
2	104	117

The change in the terms of trade from Year 1 to Year 2 most likely means that, for this country

- A. the exchange rate will fall.
- B. the current account deficit will rise.
- C. the value of imports is greater than the value of exports.
- D. more imports can be bought with a given volume of exports.

Question 10

The quantity demanded for a product increases by a higher percentage than the decrease in the price of that product.

What is this known as?

- A. demand elasticity
- B. demand inelasticity
- C. supply elasticity
- D. supply inelasticity

Question 11

What name is given to the type of efficiency where resources are reallocated to increase choice and meet the changing tastes and needs of consumers?

- A. dynamic efficiency
- B. allocative efficiency
- C. productive efficiency
- D. intertemporal efficiency

Question 12

Consider the following data relating to a hypothetical country's balance of payments for 2016–2017.

Item	\$ billion (b)
net goods	+110
net services	–50
net primary incomes	–90
net secondary incomes	+25

From this data, the balance of payments on current account would be a

- A. \$15b surplus.
- B. \$15b deficit.
- C. \$5b surplus.
- D. \$5b deficit.

Question 13

As the level of aggregate demand slows, the budget outcome will

- A. improve as unemployment increases.
- B. deteriorate as unemployment increases.
- C. improve as social security payments decrease.
- D. deteriorate as social security payments decrease.

Question 14

When the Reserve Bank of Australia buys government securities on the overnight market, the effect will be to

- A. increase the supply of cash in the money market and increase the cash rate.
- B. decrease the supply of cash in the money market and increase the cash rate.
- C. increase the supply of cash in the money market and decrease the cash rate.
- D. decrease the supply of cash in the money market and decrease the cash rate.

Question 15

Which one of the following is an example of government capital expenditure?

- A. personal income tax refunds
- B. payment of unemployment benefits
- C. provision of transport infrastructure
- D. government loans to tertiary students for university fees

SECTION B – Written responses**Instructions for Section B**

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

Question 1 (11 marks)

- a.** Explain **one** effect of competitive markets on the efficiency of resource allocation. 2 marks

- b.** Distinguish between public goods and common access resources. 3 marks

- c. Identify a recent example of government intervention in markets and explain how it unintentionally led to a decrease in the efficiency of resource allocation.

3 marks

d. Select **one** of the following aspects of budgetary policy:

- spending on training and education
- research and development grants
- subsidies

Explain how increased funding on this aspect of budgetary policy might influence aggregate supply and the goal of strong and sustainable economic growth.

3 marks

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SECTION B – continued
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Question 2 (9 marks)

Below is a schedule of demand and supply for strawberries during one week in the summer of 2016.

Price (per punnet)	Quantity demanded (no. of punnets)	Quantity supplied (no. of punnets)
\$5	140 000	30 000
\$8	120 000	50 000
\$10	80 000	80 000
\$12	60 000	90 000
\$14	30 000	110 000

- a. Construct a demand and supply curve diagram using the data in the table. Ensure all aspects of the graph are labelled appropriately. 3 marks



- b. Assuming the market for strawberries is a perfectly competitive market, identify the equilibrium price and quantity traded, and explain what is meant by 'equilibrium'.

2 marks

- c. Assume that during the summer there was a period of unseasonably cold weather and the output of strawberries was negatively affected.

Draw this scenario on the graph in **part a.**, clearly showing the adjustment to the market conditions.

2 marks

- d. Explain the adjustment to the equilibrium price and quantity.

2 marks

Question 3 (28 marks)

Treasurer Scott Morrison stated in his 2016–2017 Budget speech that the Australian Government has a ‘plan for jobs and growth’.

- a. Describe the 2016–2017 performance of the Australian economy in terms of ‘jobs and growth’.

4 marks

[illegible]

- Explain how this policy might be implemented to increase 'jobs and growth'.

[illegible]

- c. Select an aggregate supply policy from the list in **part b**. You may use the same policy that you selected in **part b**, or a different policy from the list.

Outline **one** strength and **one** weakness of using this policy to increase employment and rates of economic growth.

4 marks

[illegible]

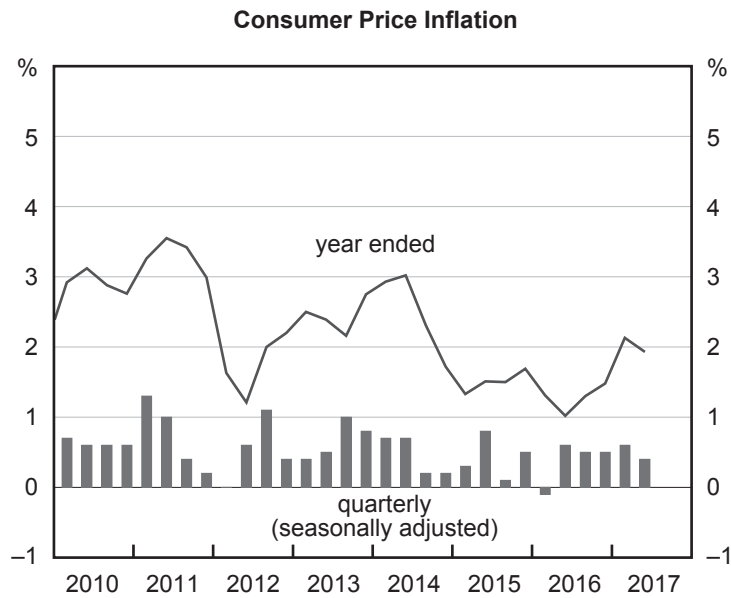
- d.** Explain how aggregate demand policies have influenced ‘jobs and growth’ in 2016–2017. 8 marks

[illegible]

- 8 marks

[illegible]

Question 4 (9 marks)



Source: adapted from ABS; RBA Chart Pack, 'The Australian Economy and Financial Markets', September 2017, p. 4

- a. Referring to the graph above, assess the extent to which Australia has been able to achieve its goal of low inflation (price stability) in 2016–2017.

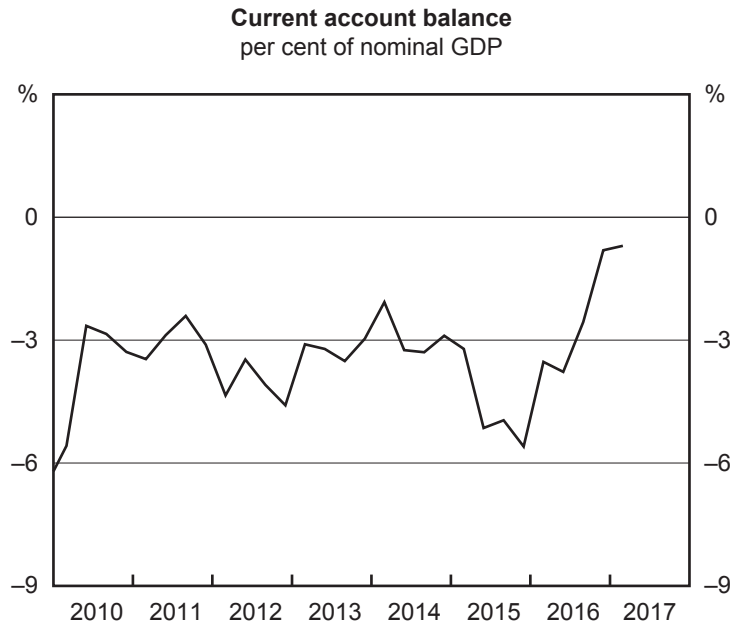
3 marks

[illegible]

- 2 marks

- 4 marks

[illegible]

Question 5 (8 marks)

Source: adapted from ABS; RBA Chart Pack,
'The Australian Economy and Financial Markets', September 2017, p. 17

- a. Referring to the graph above, outline **one** factor that might explain the trend in Australia's current account balance in 2015–2016 and 2016–2017.

2 marks

- 6 marks

[illegible]

Clearly number all responses in this space.

[illegible]

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