COMMERCE PRESENTATIONS AND PUBLICATIONS

											Letter
Figures											
Words											

Name____

VCE ECONOMICS 3/4

CPAP Practice Examination No. 1

Reading time: 15 minutes
Writing time: 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	3	3	65
			Total 80

- 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 23 pages.
- Answer sheet for multiple choice questions (page 24).
- Additional space is available at the end of the book if you need extra paper to complete an answer

Instructions
- Write your **student number** and **name** in the space provided above on this page.
- Check that your **name** and student number are written on your multiple choice answer sheet.
- All written responses must be in English.

At the end of this 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

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 the **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.

SECTION A

Question 1

Table 1: Key forecasts for major economic statistics from Budget papers

	Outcomes	Forecasts				
	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Real GDP	-0.2	1 1/4	4 1/4	2 1/2	2 1/4	2 1/2
Employment	-4.2	6 1/2	1	1	1 1/4	1 1/4
Unemployment rate	6.9	5 1/2	5	4 3/4	4 1/2	4 1/2
Consumer price index	-0.3	3 1/2	1 3/4	2 1/4	2 1/2	2 1/2
Wage price index	1.8	1 1/4	1 1/2	2 1/4	2 1/2	2 3/4
Nominal GDP	1.7	3 3/4	3 1/2	2	4 3/4	5

The actual budget deficit for 2021-22 is likely to be higher than the estimated budget deficit of $106.6 billion if the actual economic statistics for 2021-22 were as follows:

A. The unemployment rate is 5.2% and nominal GDP growth is 4.5%
B. The growth in consumer prices is 2% and real GDP is 4.5%
C. Employment growth is 1.5% and nominal GDP is 4%
D. The unemployment rate is 5.3% and the wage price index 1.0%

Question 2

Consider the following hypothetical budget figures

Item	Amount ($b)
Total receipts	400
Total expenditure	350
Net cash inflow from investment in financial assets for policy purposes	30

Which statement below is accurate?

A. The headline balance is a $50b surplus and the underlying balance is a $20b surplus
B. The headline balance is a $50b deficit and the underlying balance is a $20b surplus
C. The headline balance is a $50b surplus and the underlying balance is an $80b surplus
D. The headline balance is a $50b surplus and the underlying balance is a $30b deficit

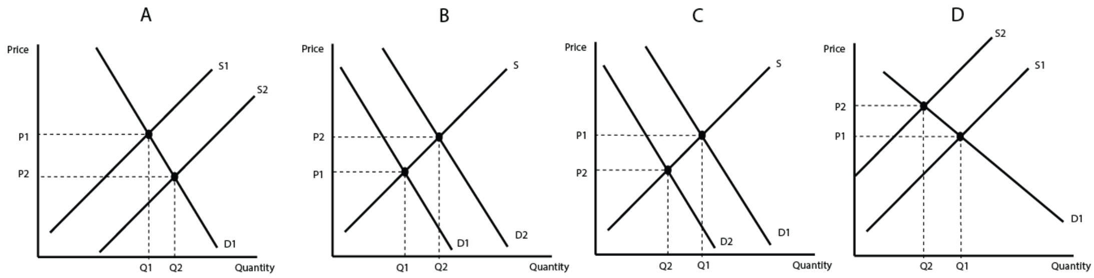
Question 3
Consider the following statistics for a hypothetical economy over the year 2021-22

Trade Weighted Index	90
Consumer Price Index	135
Terms of Trade Index	105
Net exports of goods	$120m
Net Services	$80m
Net Primary and Secondary Incomes	-$160m
Net Foreign Equity	-$100m
Net Foreign Debt	$950m

For 2021-22, which of the following statements is correct?

A. There is a current account deficit of $40m and net foreign liabilities are $850m
B. There is a current account surplus of $40m and net foreign liabilities are $1,050m
C. The Capital and Financial Account will be a deficit of $40m and the Balance on Goods and Services will be a surplus of $200m
D. The Balance on Merchandise Trade will be a balance of $105m and net foreign debt is $850m

Question 4
Which of the following diagrams best illustrate the law of demand?



A. Diagrams A and D
B. Diagram B and C
C. Diagram A and B
D. Diagram C and D

Question 5
Which of the following statements is most accurate in relation to the performance of the Australian economy over 2020-21?

A. The current account was in surplus, underlying inflation was below 3% and Net Foreign Debt was close to $1 trillion
B. The unemployment rate fell below 6%, the cash rate fell to 1.0%, and the government delivered a budget deficit
C. Real wages grew by 4%, the terms of trade had increased and real GDP growth was negative
D. The underemployment rate was more than 15%, government debt was higher than one year earlier and the trade weighted index was lower than in 2019-20

Question 6
Disguised unemployment is best defined as:

A. Those people who have stopped actively looking for work because they have become discouraged
B. Those people who are classified as employed but who are wanting to work more hours
C. Those people who have been unemployed for more than a year
D. Those people who have stopped looking for work despite being willing to take a job if one was offered

Question 7
Cost inflation is most likely to be a consequence of which of the following events?

A. An increase in the compulsory superannuation guarantee levy from 9.5% to 12% over time
B. The government reducing company tax rates for small corporations to 25%
C. There is a strong growth in the demand for Australian exports of consumer goods
D. Interest rates fall to the lowest on record

Question 8
With respect to the terms production and productivity, which of the statements below is accurate?

A. Production can be defined as outputs over inputs, while productivity represents the real value of goods and services produced over a given time period
B. Production relates to how efficiently goods and services are made while productivity relates to the process of making goods and services
C. Production is the total volume of goods and services produced while productivity is the total volume of goods and services produced in relation to the inputs and/or resources used to produce those goods and services
D. Production only occurs in the household sector while productivity only occurs in the business sector

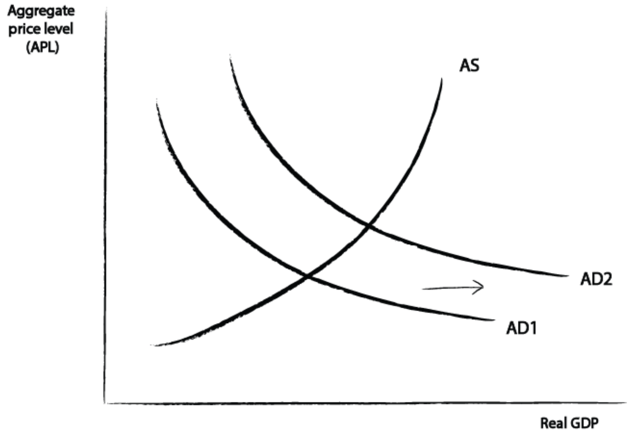
Question 9
Which of the following is most likely to increase the price elasticity of supply for new motor vehicles?

A. There is a reduction in productive capacity following a shortage of important computer chips used in their production
B. There is a decrease in the availability of substitutes such as motor cycles and public transport
C. There is an increase in industrial disputes which is impacting on the ability to meet vehicle production quotas
D. The robotics used manufacturing plants has been upgraded, which has raised productivity and technical efficiency

Question 10
Relatively scarcity is a problem for all nations and occurs because

A. Choices are relatively limited
B. Opportunity costs relatively limited
C. Needs and wants are relatively limited
D. Resources are relatively limited

Question 11
In relation to the diagram below, which of the following statements is not a valid explanation for what may have occurred in the economy?



A. There has been an increase in disposable incomes which has increased Consumption demand, stimulated economic growth, lifted the rate of inflation and reduced unemployment
B. There has been an increase in the exchange rate which has increased net export demand, stimulated economic growth, lifted the rate of inflation and reduced unemployment
C. There has been a decrease in interest rates which has increased Investment demand, stimulated economic growth, lifted the rate of inflation and boosted employment
D. There has been an increase in the rate of overseas economic growth which has increased net exports, stimulated economic growth, lifted the rate of inflation and boosted employment

Question 12
The headline rate of inflation for the year to end December 2020 was 0.9% while the underlying rate of inflation for the same period was 1.2%. This is best explained by:

A. A 9.3% increase in the price of tobacco following the further increase in tobacco excise
B. A fall in the price of non-volatile goods and services
C. A 7.5% fall in the price of electricity
D. A 2.1% increase in the price of education

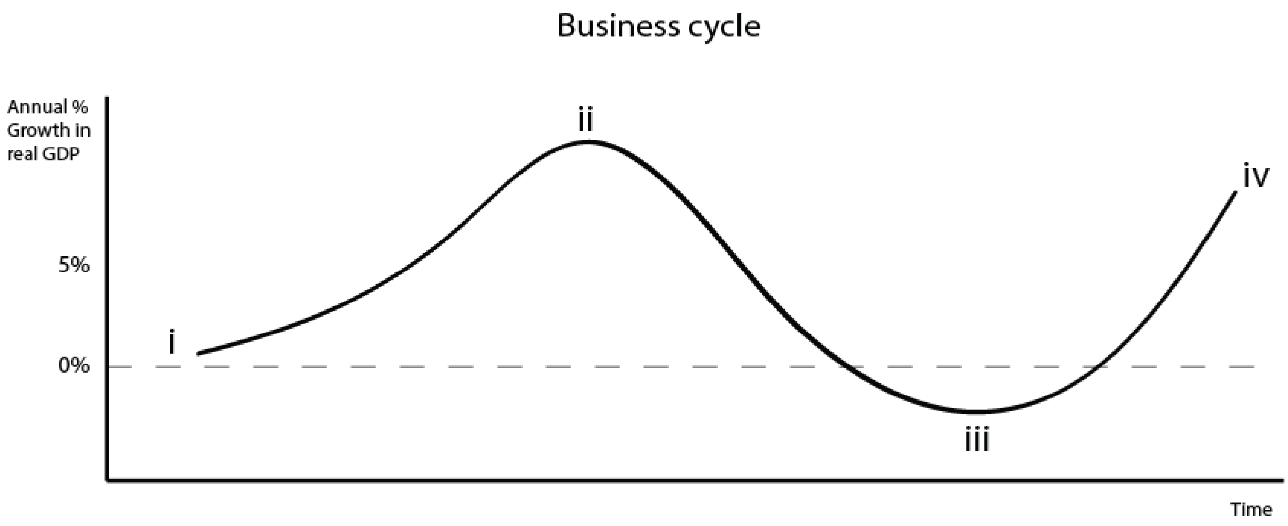
Question 13
Which of the following statements is correct in relation to the effect that lower immigration levels is having on the labour market and aggregate supply?

A. Lower rates of immigration is causing labour market tightness, downward pressure on wages and a decrease in aggregate supply
B. Lower rates of immigration is causing labour market tightness, upward pressure on wages and a decrease in aggregate supply
C. Lower rates of immigration is causing labour market weakness, upward pressure on wages and a decrease in aggregate supply
D. Lower rates of immigration is causing labour market tightness, upward pressure on wages and an increase in aggregate supply

Question 14
A minimum price set above the equilibrium price will cause

A. a greater shortage if the demand and supply curves are both price inelastic
B. a greater shortage if the demand and supply curves are both price elastic
C. a greater surplus if the demand and supply curves are both price inelastic
D. a greater surplus if the demand and supply curves are both price elastic

Question 15
In relation to the diagram below, which statement is most accurate in relation to Australia over 2020?



A. The Australian economy was operating at point i where the rate of economic growth decreased, inflation was low (or negative) and unemployment was relatively high
B. The Australian economy was operating at point iii where the rate of economic growth was negative, inflation was low (or negative) and unemployment was relatively high
C. The Australian economy was operating at point ii where the rate of economic growth increased, inflation was high and unemployment was relatively low
D. The Australian economy was operating at point iii where the rate of economic growth decreased, inflation was low (or negative) and unemployment was relatively high

SECTION B

Question 1 (14 marks)

Perfectly competitive markets are assumed to exist because of conditions such as product homogeneity, perfect information, many buyers/sellers as well as freedom of entry into and out of the market.

a. Describe the nature of a perfectly competitive market.

2 marks

b. Outline why product homogeneity helps to ensure that a market is more competitive.

2 marks

c. Describe how a change in relative prices can cause a re-allocation of resources. In your answer, refer to price signals.

4 marks

d. Markets that are left unregulated by governments will achieve the most efficient allocation of resources for a nation like Australia. Evaluate. 6 marks

Question 2 (16 marks)

[Lower interest rates have] contributed to a lower exchange rate than otherwise, freed up cash flows for households and businesses, and strengthened balance sheets by supporting asset values. …The Board will not increase the cash rate until actual inflation is sustainably within the 2 to 3 per cent target range. For this to occur, wages growth will have to be materially higher than it is currently. This will require significant gains in employment and a return to a tight labour market. The Board does not expect these conditions to be met until 2024 at the earliest. …

Source: Comments by the RBA Governor during 2021

a. Explain how a more expansionary monetary policy stance can result in a lower exchange rate and assist with the achievement of full employment. 4 marks

b. With the exception of a change in interest rates, describe one other factor that might be responsible for an exchange rate depreciation. 2 marks

c. Describe one factor that has limited the effectiveness of monetary policy at achieving stronger growth in aggregate demand (AD) since 2020. 3 marks

d. Distinguish the cash flow channel from the cost of credit channel (also known as the savings and investment channel) as part of the transmission mechanism of monetary policy. 3 marks

e. Explain how the RBA changed monetary policy settings in late 2020. Make reference to the role of open market operations. 4 marks

Question 3 (16 marks)

Budget aggregates and major economic parameters[a]

	Actual	Estimates					
	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	Total[b]
Underlying cash balance ($b)[c]	**-85.3**	**-161.0**	**-106.6**	**-99.3**	**-79.5**	**-57.0**	**-342.4**
Per cent of GDP	-4.3	-7.8	-5.0	-4.6	-3.5	-2.4	
Gross debt[d]	**684.3**	**829.0**	**963.0**	**1,058.0**	**1,134.0**	**1,199.0**	
Per cent of GDP	34.5	40.2	45.1	48.6	49.7	50.0	
Net debt	**491.2**	**617.5**	**729.0**	**835.0**	**920.4**	**980.6**	
Per cent of GDP	24.7	30.0	34.2	38.4	40.4	40.9	

Source: www.budget.gov.au/overview

a. Describe the movement in the estimated budget outcome between 2020-21 and 2021-22.

2 marks

b. Describe how one initiative from the 2021-22 Budget influenced the estimated budget outcome and explain how this initiative can boost aggregate demand and economic growth. 4 marks

c. Describe how a cyclical component of the budget helped to support the household and business sectors of the economy over 2020-21. 4 marks

d. Explain how continuing growth in Australia's terms of trade might influence the setting of aggregate demand policies. 6 marks

Question 4 (7 marks)

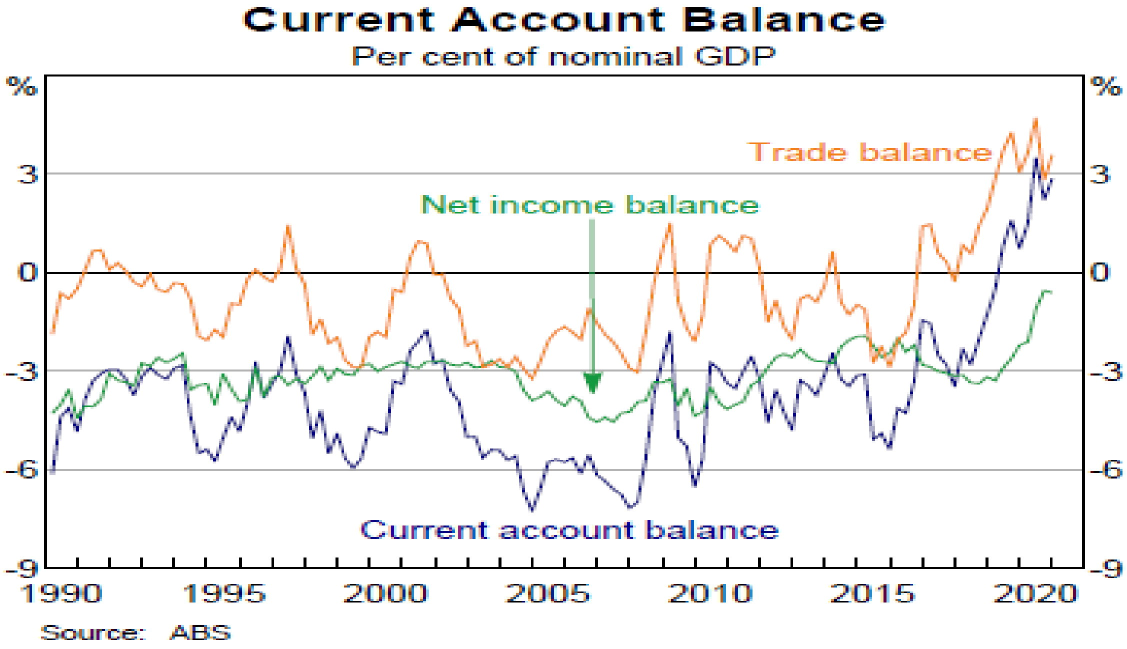
The Australian Government utilises aggregate supply policies to manage the Australian economy. If the productive capacity of the economy is expanding, growth in aggregate demand can be met and economic growth can be maintained both now and into the future.

a. Describe how a recent training and education spending initiative announced or implemented by the government can boost productive capacity and assist with the achievement of price stability.

4 marks

b. Distinguish market-based from interventionist approaches to managing the supply side of the economy.
3 marks

Question 5 (12 marks)



a. Describe the trend movement in the current account balance since 2018. 2 marks

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b. Explain how each of the following is likely to influence the current account balance over 2021-22

i. A higher trade weighted index (TWI)
ii. A rise in labour productivity 6 marks

c. Explain how a retreat from trade liberalisation might influence Australia's current account balance and living standards. 4 marks

Extra space for responses

Clearly number all responses in this space

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VCE ECONOMICS 3/4
2021 Practice Examination No. 1

Multiple choice answer sheet

Student Name____

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