

Student Name:

PES

2021 ECONOMICS UNIT 3 & 4

Practice Examination

Solutions

Structure of book

<i>Section</i>	<i>Number of questions to be answered</i>	<i>Number of marks</i>
A	15	15
B	5	65
		Total : 80
Instructions: Answer all questions in the space provided Duration of task: 120 minutes plus 15 minutes reading time		

- Students are permitted to bring into the exam room: pens, pencils, highlighters, erasers, sharpeners and rulers
- Students are NOT permitted to bring into the exam room: blank sheets of paper and/or white out liquid/tape.

Materials supplied

- Question and Answer Book of 21 pages.

Instructions

- Write your name and your teacher's name in the space provided on the front page of this Book.
- Answer all questions in the spaces provided.

Students are not permitted to bring mobile phones and/or any other unauthorised electronic devices into the exam room.

SECTION A – Multiple-choice questions

Question 1

Conservation programs to restore shellfish reefs in Port Phillip Bay and create a healthier, cleaner bay with more fish will most likely increase which type of efficiency?

- A. Allocative
- B. Dynamic
- C. Intertemporal**
- D. Productive

Question 2

What would be the effect on the market for AirPods if there were a rise in the price of iPhones?

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

Question 3

Public goods can be described as having the following characteristics:

- A. Non-excludable and depletable
- B. Excludable and non-rivalrous
- C. Non-excludable and rivalrous
- D. Non-excludable and non-rivalrous**

Question 4

The Victorian Government's \$40 million Community Sport Sector Short-term Survival Package providing grants to support the operational viability of community sport impacted by COVID-19 is an example of government intervention to resolve which form of market failure?

- A. Negative externality from production
- B. Positive externality from consumption**
- C. Asymmetric information
- D. Common access resources

Question 5

Which of the following statements is true in relation to Australia's terms of trade?

- A. While commodity prices have generally been increasing, significant growth in the import price index has led to a declining terms of trade.
- B. The appreciation of the Australian Dollar has increased export prices, resulting in a higher terms of trade.
- C. Rising export prices have increased the terms of trade and boosted company tax revenues for the government.**
- D. Record high iron ore prices have led to lower export demand and, therefore, a decreasing terms of trade.

Question 6

Plans to reduce Australia's intake of skilled migrants would have what effect on the labour market?

- A. Increase the participation rate and reduce instances of underemployment
- B. Decrease the size of the labour force, leading to rising labour costs**
- C. Boost labour productivity and wages growth
- D. Reduce the labour supply but increase import demand

Question 7

A foreign investor purchasing shares in an Australian listed company such as BHP would be recorded in the balance of payments:

- A. As a credit in the net primary income account, while any dividend payments received by the investor would be recorded as a debit in the financial account.
- B. As a credit in the net primary income account, while any dividend payments received by the investor would be recorded as a credit in the financial account.
- C. As a credit in the financial account, while any dividend payments received by the investor would be recorded as a debit in the net primary income account.**
- D. As a credit in the financial account, while any dividend payments received by the investor would be recorded as a credit in the net primary income account.

The data in the following table relates to questions 8 and 9.

Economic indicator	April 2020	April 2021
Unemployment rate	6.4%	5.5%
AUD exchange rate	0.65 USD	0.77 USD
Consumer confidence index	75.6	118.8
Cash rate target	0.25%	0.1%

Question 8

Which of the following statements is true in relation to the data?

- A. The change in the AUD exchange rate is likely to have contributed to the change in consumer confidence.
- B. The changes in consumer confidence and the cash rate target are likely to have contributed to the change in the unemployment rate.**
- C. The change in the cash rate target is likely to have contributed to the change in the AUD exchange rate.
- D. The changes in the unemployment rate and consumer confidence are likely to have contributed to the change in the cash rate target.

Question 9

If consumer confidence continues to rise over the next two years, it is likely that:

- A. Both the unemployment rate and the cash rate target will continue to fall.
- B. The unemployment rate will start to increase while the cash rate target remains unchanged.
- C. The unemployment rate will continue to fall while the cash rate target may be increased.**
- D. Both the unemployment rate and the cash rate target will remain at current levels.

Question 10

Competitive markets tend to have what effect on the achievement of economic efficiency?

- A. They promote the achievement of productive efficiency and dynamic efficiency.**
- B. They promote the achievement of allocative efficiency and intertemporal efficiency.
- C. They promote the achievement of allocative efficiency but may prevent the achievement of dynamic efficiency.
- D. They may prevent the achievement of productive efficiency and intertemporal efficiency.

Question 11

In the 2021-22 budget, the government announced additional funding for the child care subsidy (CCS). The purpose of this initiative is to:

- A. Increase labour force participation
- B. Boost labour productivity
- C. Expand the productive capacity of the economy
- D. All of the above**

Question 12

A strength of using budgetary policy to achieve the government's macroeconomic goals is that:

- A. It is able to target particular industries that need support**
- B. It has a relatively short implementation lag
- C. It is free from political bias
- D. It is decided by the RBA which acts according to its charter in an independent fashion

Question 13

If casual staffing costs were to increase, while at the same time the government cut income tax rates, how would this effect the market for a product such as Boost Juice?

- A. The equilibrium price would rise and the equilibrium quantity would fall.
- B. Both the equilibrium price and the equilibrium quantity would rise.
- C. The equilibrium price might rise or fall.
- D. The equilibrium quantity might rise or fall.**

Question 14

Which of the following is not an example of a subsidy paid by the Australian government?

- A. Funding relief provided to farmers affected by the drought
- B. Payments made to people with disabilities as part of the NDIS
- C. Contributions made to the renewable energy sector to lower production costs and incentivise greater supply**
- D. Funding provided to lower the cost of childcare for Australian families

Question 15

If a change in tastes and preferences leads to increased demand for food delivery services, how will this affect relative prices and the allocation of resources?

- A. The relative price of food delivery services is likely to decrease, leading to a decrease in the allocation of resources to the supply of food delivery services.
- B. The relative price of food delivery services is likely to decrease, leading to additional resources being allocated to the supply of food delivery services.
- C. The relative price of food delivery services is likely to increase, leading to a decrease in the allocation of resources to the supply of food delivery services.
- D. The relative price of food delivery services is likely to increase, leading to additional resources being allocated to the supply of food delivery services.**

END OF SECTION A

SECTION B – Written responses

Question 1 (14 marks)

In its *Statement on Monetary Policy (May 2021)*, the RBA indicated that:

“Strong global growth is expected this year and next as the global economy recovers from the pandemic. Vaccine supply is increasing, which is allowing some economies to ease restrictions and open up. Substantial policy stimulus is also supporting the recovery. But the recovery is expected to remain uneven. Many economies are contending with serious new virus outbreaks and the outlook for some emerging market economies is clouded...”

- a) Explain how the RBA’s expectation of ‘strong global growth’ is likely to affect Australia’s aggregate demand (AD), the current account balance and achievement of the goal of low inflation. (6 marks)

Mark Allocation:

2 marks for explaining the likely affect of the strong global growth on Australia’s AD

2 marks for explaining the likely affect of the strong global growth on Australia’s current account balance

2 marks for explaining the likely affect of the strong global growth on the achievement

Suggested Response

Strong economic growth overseas would positively impact Australia’s Aggregate Demand as the demand for Australian exports such as coal and iron ore would increase. In fact, in the first quarter of 2021 Chinese economy grew around %7 leading to increased demand for Australian iron ore and coal. As a result of increased exports, credits received in the Balance of Merchandise Trade and Net services sub accounts of current account would increase adding to the existing current account surplus. In order to meet the increased demand for Australian commodities, Australian exporting companies would increase their production. Increase in production requires businesses to hire more labour. This tends to create more jobs resulting in increase in general income levels. With rising income levels consumer confidence rise too resulting in increase in consumption leading to increase in demand inflation. This would cause an upward trend in inflation pushing it towards the target level of 2-3 %.

- b) The increasing vaccine supply is having a positive effect on the global economic recovery. Discuss the price elasticity of supply (PES) for COVID-19 vaccines. (3 marks)

Mark Allocation:

1 mark for defining price elasticity of supply

1 mark for explaining why initially supply for COVID-19 vaccines would be inelastic

1 mark for explaining why supply for COVID-19 vaccines would become more elastic

Suggested Response

Price elasticity of supply measures the responsiveness of the quantity supplied to the percentage change in price. The spread of COVID-19 worldwide increased the demand for COVID-19 vaccines. The high demand for COVID-19 vaccines give opportunities to vaccines’ industry to develop good quality vaccines as soon as possible for protect people against the COVID-19 virus. However good vaccines must meet basic criteria of safety, purity, potency, and efficacy. Regardless of how high the demand

is, pharmaceutical companies need to make sure that the vaccines they produce must pass all required tests and stages before making it available to the public. It takes a long time for all required phases of vaccine production to be completed. Therefore, in the short-term supply for vaccines would be inelastic. When more pharmaceutical companies complete their research and make more vaccines available for the public supply for Covid -19 would become more price elastic due to increased availability of stocks.

- c) Describe one relevant factor affecting the price elasticity of demand (PED) for COVID-19 vaccines. (2 marks)

Mark Allocation:

1 mark for identifying factor affecting the price elasticity of demand in general

1 mark for describing the chosen factor affecting the price elasticity of demand for COVID-19 vaccines

Suggested Response

The price elasticity of demand measures the responsiveness of the quantity demanded relative to the percentage change in price. It measures when there is a price change whether, in percentage terms, quantity demanded changes by a large or small amount. One factor affecting the elasticity of demand is the degree of the necessity of the product. Goods that are a necessity are typically inelastic, meaning that a change in price is unlikely to impact demand. The demand for Covid-19 vaccines is global because it is a pandemic. Currently it is seen as the only cure for this deadly disease therefore regardless of the price the demand is very high for the Covid-19 vaccine.

- d) In February 2021 the Australian Government announced an extra \$1.9 billion in funding towards the COVID-19 vaccine rollout. With reference to a relevant source of market failure, explain the need for the government to provide such funding. (3 marks)

Mark Allocation:

1 mark for defining market failure

1 mark for briefly explaining positive externalities

1 mark for explaining the need for the government to provide such funding in order to address market failure

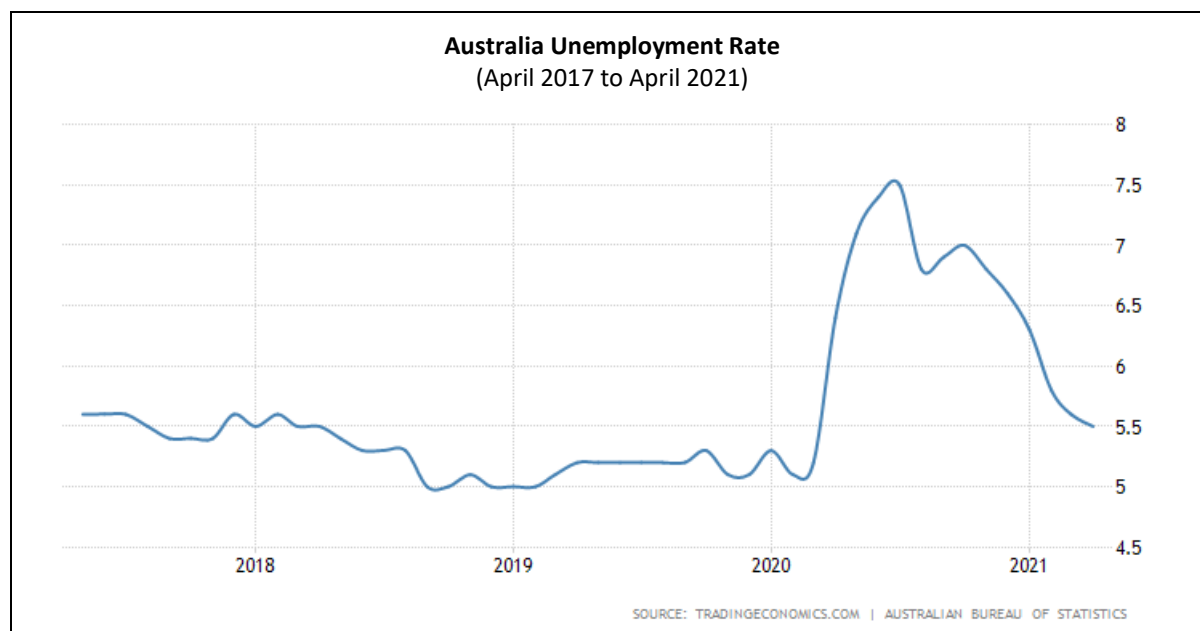
Suggested Response

In some circumstances, the market fails to use resources efficiently. When the free market system allocates resources inefficiently, reducing the overall satisfaction of societies wants, wellbeing and living standards, market failure occurs.

Vaccines have a "positive externality"; it is a good whose consumption benefits not just the one who has it. A vaccinated person is not only relatively protected against the disease himself/herself, but also less likely to transmit it to others. The market for vaccinations is usually characterised by market failures, because individuals do not assume the positive externalities that their vaccination decisions may confer on other individuals. This lack of interest from individuals results in underproduction of vaccines.

Government can play a role in encouraging positive externalities by providing subsidies for vaccine production. Such subsidies provide an incentive for firms to increase the production of goods that provide positive externalities. In order to minimise the impact of Covid 19, and make the vaccine available for all Australians, Australian Government has announced \$1.9 billion in funding towards the COVID-19 vaccine rollout.

Question 2 (14 marks)



- a) With reference to the above graph, describe the trend in Australia's unemployment rate over the 12 months to April 2021. (2 marks)

Mark Allocation:

1 mark for referencing the decreasing trend in unemployment

1 mark for stating the data in reference to the graph

Suggested Response

According to the graph above Australia's unemployment rate has decreased over the 12 months from 7.5% in April 2020 and to 5.5 in April 2021, this is despite a slight reversal in the overall trend in mind 2020 when unemployment returned to around 7% temporarily.

- b) Explain one aggregate demand factor and one aggregate supply factor that has influenced this trend in the unemployment rate. (4 marks)

Mark Allocation:

2 marks for identifying and explaining one aggregate demand factor that influenced the downward trend in the unemployment rate

2 marks for identifying and explaining one aggregate supply factor that influenced the downward trend in the unemployment rate

Suggested Response

One aggregate demand factor contributing to the downward trend in the rate of unemployment is increase in business confidence. Business confidence measures the general level of optimism or pessimism about the future state of the economy based upon surveys on production, orders, and finished goods in a sector. . Australian business confidence for April has reached a seven-year high, up by 62.9 per cent to 125.3 points from 48.4 points in April last year. When business confidence is high, then firms tend to spend more on investment, believing that the future payoff from that investment will be substantial. As a result of increased business investment new jobs are created reducing the unemployment rate.

One aggregate supply factor contributing to the downward trend in Australia's unemployment rate is exchange rate. The exchange rate is the value of Australian Dollar against another currency such as US Dollar. Over the last 12 months since April 2020 AUD has been appreciating. Stronger value of the Australian Dollar makes imports cheaper and a large proportion of Australian imports are capital equipment. Therefore appreciating Australian dollar would reduce the cost of production for Australian firms thus encouraging them to increase production. This would result in increase demand for labour resources putting a downward pressure in the rate of unemployment.

- c) Assess the extent to which the Australian government has achieved its goal of full employment over the past 12 months. (3 marks)

Mark Allocation:

1 mark for defining Australian government's goal of full employment

2 marks for explaining whether Australian government achieved its goal with reference to the data in the chart

Suggested Response

Australian government's goal of full employment can be defined as the rate of unemployment that will not cause inflation to accelerate and there would be no cyclical unemployment due to weak AD or recession. Around 4.5% - 5% of the labour force would be naturally unemployed due to mostly structural reasons. Although the unemployment rate has been decreasing significantly over the past 12 months, the unemployment rate as of April 2021 (5.5%) is still above the government's goal of full employment. This indicates that the goal of full employment has not been achieved yet.

- d) Distinguish between hidden unemployment and disguised unemployment. (3 marks)

Mark Allocation:

1 mark for defining hidden unemployment

1 mark for defining disguised unemployment

1 mark for stating a difference between the two terms

Suggested Response

Hidden unemployment refers to the many discouraged job seekers – those who would join the workforce if they believed they could find a job. They are potential labour resources but not counted in any statistics. On the other hand, disguised unemployment is when people want to work more than

they currently do. If there was an opportunity they are willing to work more hours. The difference between the two is: people who are in the hidden category do not work at all and given up looking for a job therefore they are not counted in the unemployment rate. However people who are underemployed (disguised) are in the labour force but would like to work more hours.

- e) Define labour force underutilisation rate and, using data from the table below, calculate Australia's underutilisation rate as at April 2021. (2 marks)

Australia Labour Force (April 2021)	
Unemployment rate	5.5%
Participation rate	66.0%
Employed people, year change	5.1%
Employment to population ratio	62.3%
Underemployment rate	7.8%

Mark Allocation:

1 mark for defining labour force underutilisation rate

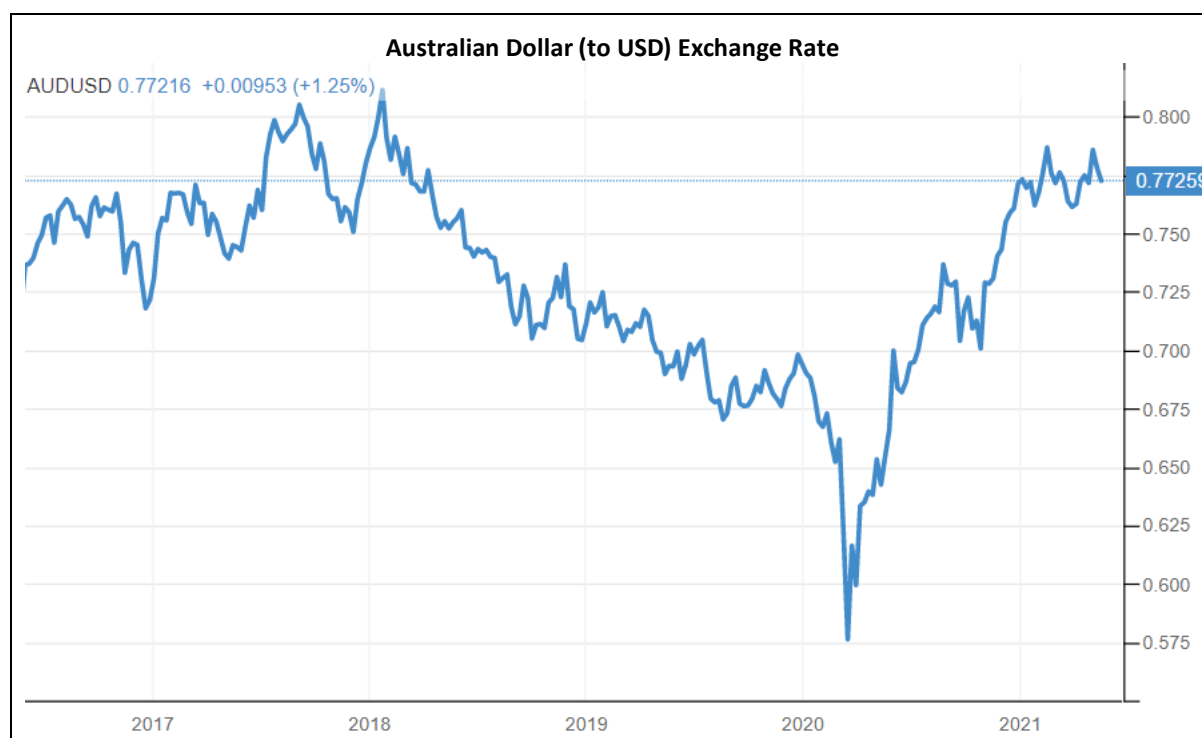
1 mark for calculating the underutilisation rate by using the data

Suggested Response

The underutilisation rate is the extent to which the available labour is not working at its capacity. This is equal to the unemployment rate plus the underemployment rate.

According to the data given above Australia's underutilisation rate at April 2021 is 13.3% (5.5% + 7.8)

Question 3 (10 marks)



- a) As shown in the chart above, the Australian dollar has generally been appreciating over the past 12 months. Explain one factor affecting the value of the exchange rate. (2 marks)

Mark Allocation:

1 mark for identifying a factor affecting the value of the Australian dollar

1 mark for explaining how this factor causes Australian dollar to appreciate.

Suggested Response

One factor causing the appreciation of Australian dollar is the economic growth in China. China's pandemic-fuelled stimulus has resulted in a strong rebound in industrial production, which requires industrial metal. Thus, the demand for iron ore has reached multi-year highs. This has allowed Australia to capitalize on this opportunity as a major iron ore exporter to China. Therefore, as the demand for AUD increases due to increase in exports the value of AUD appreciates.

- b) Explain the effect of an appreciating exchange rate on Australia's goal of strong and sustainable economic growth and living standards. (4 marks)

Mark Allocation:

1 mark for defining the goal of strong and sustainable economic growth

1 mark for explaining the impact of appreciating AUD on the achievement of the goal of strong and sustainable economic growth

1 mark for explaining the impact of appreciating AUD on the material living standards

1 mark for explaining the impact of appreciating AUD on the non-material living standards

Suggested Response

Australian government's goal for strong and sustainable economic growth is to achieve the highest growth rate possible, consistent with strong economic growth, but without running into unacceptable inflationary, external and/or environmental pressures. An appreciation of the Australian dollar will mean that foreigners will need more of their currency to obtain each Australian dollar. Therefore, the demand for Australian products would decrease while the demand for imports would increase. This would reduce the AD leading to cyclical unemployment. As a result material living standards of Australians might decrease. Decrease income levels due to cyclical unemployment would cause increase in stress levels and mental illnesses causing a decrease in non-material standards too.

- c) Explain the effect of an appreciating exchange rate on Australia's international competitiveness and the current account balance. (4 marks)

Mark Allocation:

1 mark for defining international competitiveness

1 mark for explaining the impact of appreciating AUD on Australia's international competitiveness

1 mark for explaining the impact of appreciating AUD on current account debits

1 mark for explaining the impact of appreciating AUD on current account credits

Suggested Response

In the event there is an appreciation of the Australian Dollar, this will result in our exports becoming more expensive in foreign currency terms and imports cheaper in AUD terms making it harder to domestic producers to compete, leading to a reduction in the economies international competitiveness, i.e. the country's ability to compete in global markets for goods and services. This will lead to a reduction in the value of credits to the Balance of Merchandise Trade and Net services subaccounts of the Current Account, as fewer foreign consumers purchase Australian exports such as our wine. There will also be an increase in the value of debits to the Balance of Merchandise Trade and Net services subaccounts of the Current Account, as Australian consumers and producers increase their consumption of imports in place of domestically produced substitutes due to the more attractive prices of imports. Both contributing to a deterioration in the current account balance.

Question 4 (11 marks)

In its *Statement on Monetary Policy (May 2021)*, the RBA indicated that:

“The current package of monetary policy measures continues to support the economy in part by keeping financing costs very low. Interest rates on business and housing loans continue to drift down from already low levels, which is positive for the cash flows of firms and households overall.”

a) Describe the current stance of monetary policy. (2 marks)

Mark Allocation:

1 mark for identifying the current stance as “expansionary”

1 mark for describing expansionary monetary policy

Suggested Response

Currently the Reserve Bank of Australia has adopted an accommodative/expansionary stance or monetary policy settings, by setting the targeted cash rate at a record low 0.10% in order to stimulate economic activity and increase AD.

b) Explain two transmission mechanisms of monetary policy and their influence on the level of aggregate demand. (4 marks)

Mark Allocation:

2 marks for explaining one transmission mechanism of monetary policy and its influence on the level of aggregate demand

2 marks for explaining another transmission mechanism of monetary policy and its influence on the level of aggregate demand

Suggested Response

The transmission mechanism of monetary policy describes how changes made by the Reserve Bank to the cash rate – the ‘instrument’ of monetary policy – flow through to economic activity and inflation. There are five transmission mechanisms: The cost of credit (savings and investments), Cash Flow, Availability of Credit, Asset value/prices and Exchange rate.

Cost of credit channel influences the demand for credit because it changes the cost of borrowing and repaying debt, thereby affecting the level of credit-sensitive spending, AD and economic activity. Lower interest rates make saving less attractive. Households and businesses become more willing to take out loans to finance credit-sensitive consumption and investment spending on goods and services, thus stimulating AD and economic activity.

Another transmission channel is the Cash flow transmission channel. It is the impact of changes in interest rates on the level of discretionary spending on other goods and services by households with existing loans like home mortgages and overdrafts. This affects consumption spending, AD and economic activity. With record low interest rates, borrowers have more cash to spend on other goods and services after they have met their interest repayments on their existing debt. This tends to stimulate consumption spending, AD and economic activity.

- c) Evaluate the effectiveness of using monetary policy to achieve the Australian Government's domestic macroeconomic goals. (5 marks)

Mark Allocation:

2 marks for explaining strengths of monetary policy in achieving Australian Government's domestic macroeconomic goals

2 marks for explaining weaknesses of monetary policy in achieving Australian Government's domestic macroeconomic goals

1 mark of stating an opinion on the effectiveness of using monetary policy to achieve the Australian Government's domestic macroeconomic goals

Suggested Response

Monetary policy is implemented by the RBA, which is fairly independent of the government. This may potentially reduce the unpopular political or voter fallout from rises in interest rates. This allows the RBA to make policy decisions for the benefit of the whole economy disregarding any possible popularity concerns. Another strength of monetary policy is it is particularly powerful in influencing the expectations of economic agents. Concerns expressed by the RBA Governor can have a powerful influence on the behaviour of consumers and firms.

However, monetary policy is unable to discriminate across the economy as any attempt to manipulate interest rates affects all sectors and industries equally. Additionally, RBA only has direct control over the cash rate and the changes in all other rates depends on the demand and supply forces in the financial markets.

Question 5 (16 marks)

Table 1.1: Budget aggregates							
	Actual	Estimates					
	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	Total(a)
Underlying cash balance (\$b)(b)	-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	
Net operating balance (\$b)	-92.3	-154.5	-92.7	-90.2	-70.2	-55.7	-308.9
Per cent of GDP	-4.7	-7.5	-4.3	-4.1	-3.1	-2.3	

(a) Total is equal to the sum of amounts from 2021-22 to 2024-25.
 (b) Excludes net Future Fund earnings before 2020-21.

Source: Budget 2021-22, Statement 1: Budget Overview

- a) With reference to the table above, outline the budget outcome for 2021-22. (2 marks)

Mark Allocation:

1 mark for defining the term budget outcome

1 mark of outlining the budget outcome for 2021-2022 by using the data

Suggested Response

The budget outcome reflects the difference between revenues and expenses. According to the data above Australia has a 161 billion dollars of budget deficit where government outlays exceed government receipts.

- b) Explain the relationship between the budget outcome and the level of government debt. (2 marks)

Mark Allocation:

2 marks for explaining the relationship between the budget outcome and the level of government debt

Suggested Response

When the government records a budget deficit it must be funded somehow. The government can finance a budget deficit through selling bonds to the RBA, selling bonds to the local investors or selling bonds to the foreign investors. Selling bonds adds to the government debt. On the other hand when the government delivers budget surplus where government receipts exceed outlays it would be used to reduce the government debt.

- c) In its budget the Government is forecasting economic growth of 4.25% in 2021-22, as shown in the table below. Analyse the effect of lower than expected economic growth on the 2021-22 budget outcome. (4 marks)

Table 1.2: Major economic parameters^(a)						
	Outcome		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

(a) Real GDP and Nominal GDP are percentage change on preceding year. The consumer price index, employment, and the wage price index are through-the-year growth to the June quarter. The unemployment rate is the rate for the June quarter.
 Source: ABS Australian National Accounts: National Income, Expenditure and Product; Labour Force, Australia; Wage Price Index, Australia; Consumer Price Index, Australia and Treasury.

Source: Budget 2021-22, Statement 1: Budget Overview

Mark Allocation:

- 1 mark** for demonstrating an understanding of the role of automatic stabilisers
- 1 mark** for explaining a decrease in tax revenues (less income tax due to higher than expected unemployed and/or less company tax revenue due to lower profits)
- 1 mark** for explaining an increase in outlays (additional transfer payments to unemployed)
- 1 mark** for identifying an increase in the budget deficit (reflecting the role of the above automatic stabilisers)

Suggested Response

Weaker than expected economic growth in 2021-22 is likely to contribute to an increase in the level of cyclical unemployment. As a result of this downturn in economic activity and rise in unemployment, automatic stabiliser operates in order to stabilise the business cycle. With fewer individuals working and those that are, receiving smaller wage rises due to the spare capacity in the labour market, this leads to a reduction in the level of income tax receipts received by the government reducing government revenue. In addition, with more people unemployed the government will pay more unemployment benefits, increasing levels of government expenditure. The fall in revenue and rise in expenditure leads the budget deficit, which has to be financed by the government. This is done by issuing bonds in the domestic or foreign money markets or alternatively to the Reserve Bank of Australia. In each instance this will increase the level of government or public debt.

- d) Explain the effect of one budget initiative from the past two years on the Australian Government's goal of full employment. (4 marks)

Mark Allocation:

1 mark for defining the Australian Government's goal of full employment

1 mark for identifying one budget initiative from the past two years

2 marks for explaining the effect of the chosen budget initiative on the Australian Government's goal of full employment

Suggested Response

Australian government's goal of full employment is around 4.5% - 5% and can be defined as the rate of unemployment that will not cause inflation to accelerate and there would be no cyclical unemployment due to weak AD or recession.

In the 2021-22 Federal Budget, the extension of the Low- and Middle-Income Tax Offset, will deliver up to an extra \$1,080 for individuals and \$2,160 for couples and is expected to impact 10.2 million individuals. By reducing the level of income tax that these individuals must pay, this increases these household's disposable income, boosting their purchasing power which is likely to result in an increase in private consumption expenditure, with greater spending on goods and services of a durable, semi-durable and non-durable nature. This increase should lead to an increase in Aggregate Demand, with producers responding by increasing volumes of production in order to meet demand. This leads to an increase in the derived demand for labour, as more workers are required to boost economic activity, reducing levels of cyclical unemployment towards the non-accelerating rate of unemployment of 4 to 5%, full employment.

- e) Describe how the following aspects of budgetary policy are designed to influence aggregate supply:

– spending on training and education

– investment in infrastructure

(4 marks)

Mark Allocation:

2 marks for describing how spending on training and education can influence aggregate supply

2 marks for describing how investment in infrastructure can influence aggregate supply

Suggested Response

Government spending on training and education represents another outlay in the budget that, among other things, can be used in the long term to cultivate the skills, productivity and creativity of Australia's labour resources (grow our human capital). Such outlays help grow our productive capacity and increase aggregate supply.

Infrastructure investment can be regarded as an aspect of aggregate supply budgetary policy that involves federal government outlays on the capital resources (G2) that are in turn used by suppliers to produce other goods and services. Infrastructure may be of two types. Social infrastructure especially involves the provision of capital goods to facilitate services like -education and health. By contrast, economic infrastructure might include highways, railways, seaports, airports, electricity capacity and delivery, gas, telecommunications including the broadband network, sewerage and water supply. Both types of infrastructure can help grow a nation's productive capacity or potential and thus affect the level of aggregate supply.