

Student Name:

PES

2021 ECONOMICS UNIT 3 & 4

Practice Examination

Question Book

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)

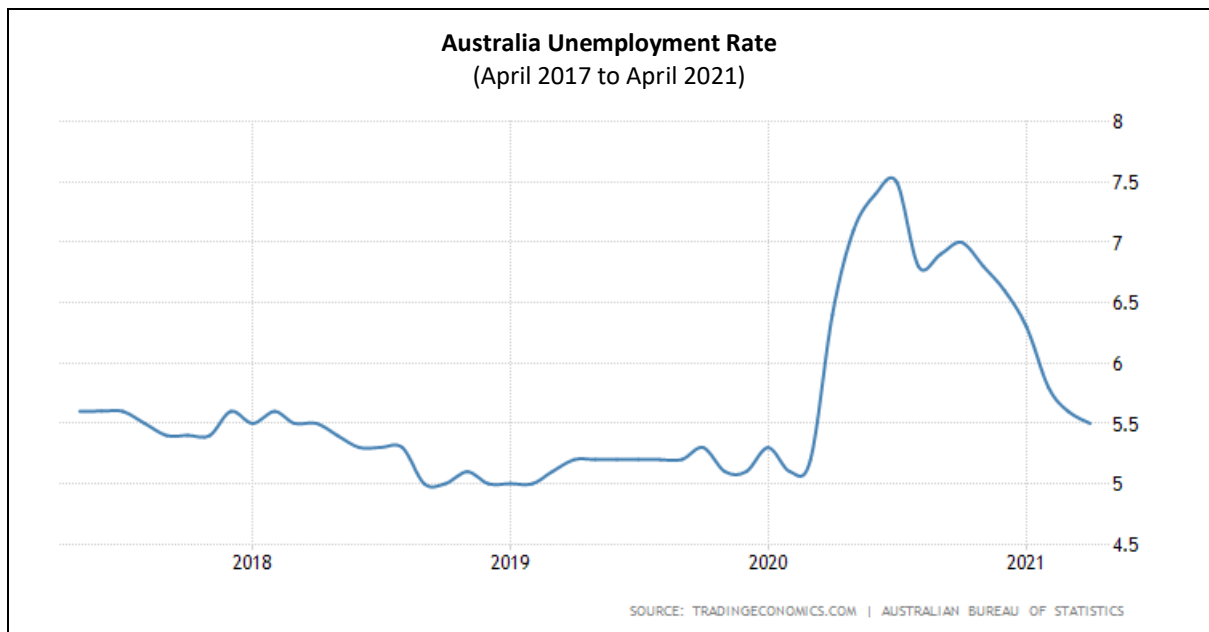
This image shows a single sheet of white paper with horizontal ruling lines. The lines are evenly spaced and run across the width of the page. There are no margins, text, or other markings on the paper.

- 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)

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

- 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)

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)

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

[illegible]

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

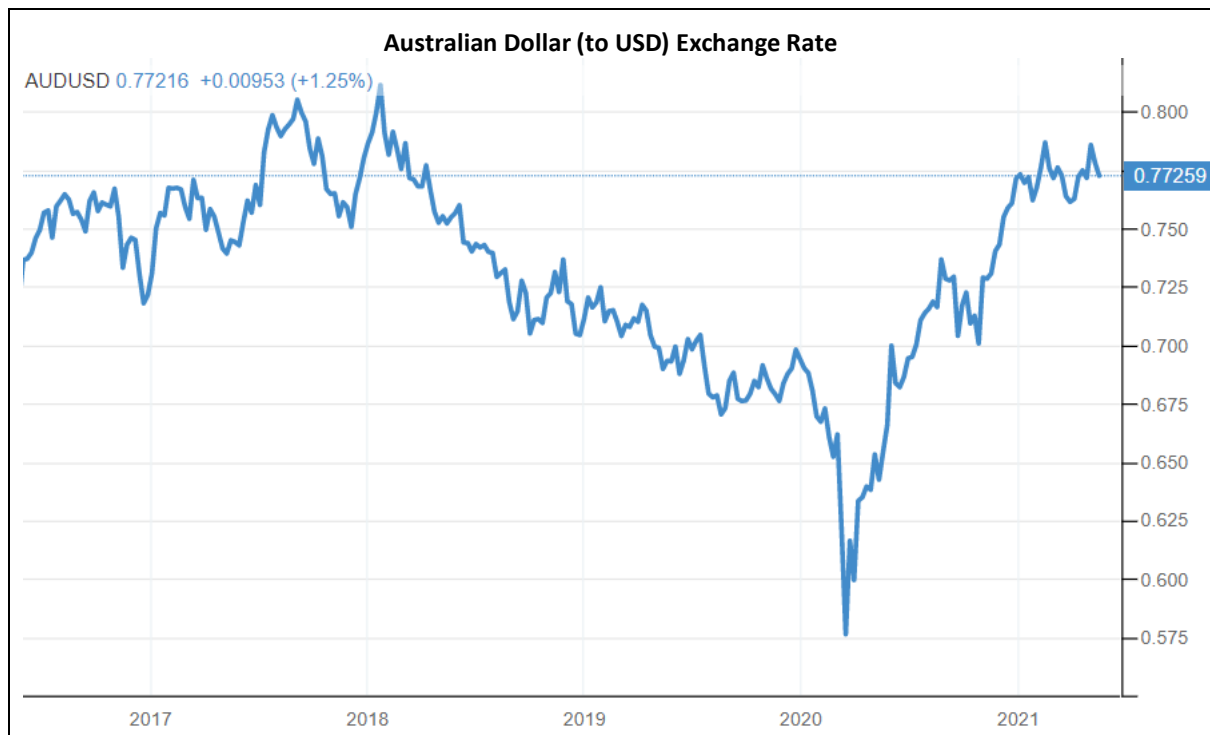
[illegible]

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

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%

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)

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

[illegible]

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

[illegible]

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)

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

This image shows a single sheet of white paper with horizontal blue or grey ruling lines. The lines are evenly spaced and run across the width of the page. There are approximately 20 lines visible. The paper has a slight shadow on the right side, suggesting it's resting on a surface.

-
- This image shows a single sheet of white paper with horizontal ruling lines. The lines are evenly spaced and run across the width of the page. There are no margins, text, or other markings on the paper.

Question 5 (16 marks)

Table 1.1: Budget aggregates

	Actual	Estimates					Total(a)
	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	
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)

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

-
- This image shows a blank sheet of white paper with horizontal ruling lines. The lines are evenly spaced and run across the width of the page. There are no margins, text, or other markings on the paper.

(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

This image shows a single sheet of white paper with horizontal ruling lines. The lines are evenly spaced and extend across the width of the page. There are no margins, text, or other markings on the paper.

- spending on training and education

(4 marks)

[illegible]

END OF QUESTION AND ANSWER BOOKLET

Extra space for responses

Clearly number all responses in this space.

[illegible]