

Letter

STUDENT
NUMBER

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ECONOMICS UNITS 3 & 4

2021

TRIAL EXAM B

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	4	4	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 **21** 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** 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

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; and 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

Which of the following is **not** a pre-condition for a perfectly competitive market?

- A. firms are 'price takers'
- B. homogenous product is sold
- C. many sellers and many buyers
- D. product differentiation

Question 2

Which of the following is **not** considered to be a leakage from the circular flow model?

- A. exports
- B. government taxation
- C. household savings
- D. imports

Question 3

Which of the following is **best described** as a direct progressive tax?

- A. good and services tax
- B. PAYG income tax
- C. company tax
- D. customs and excise duties

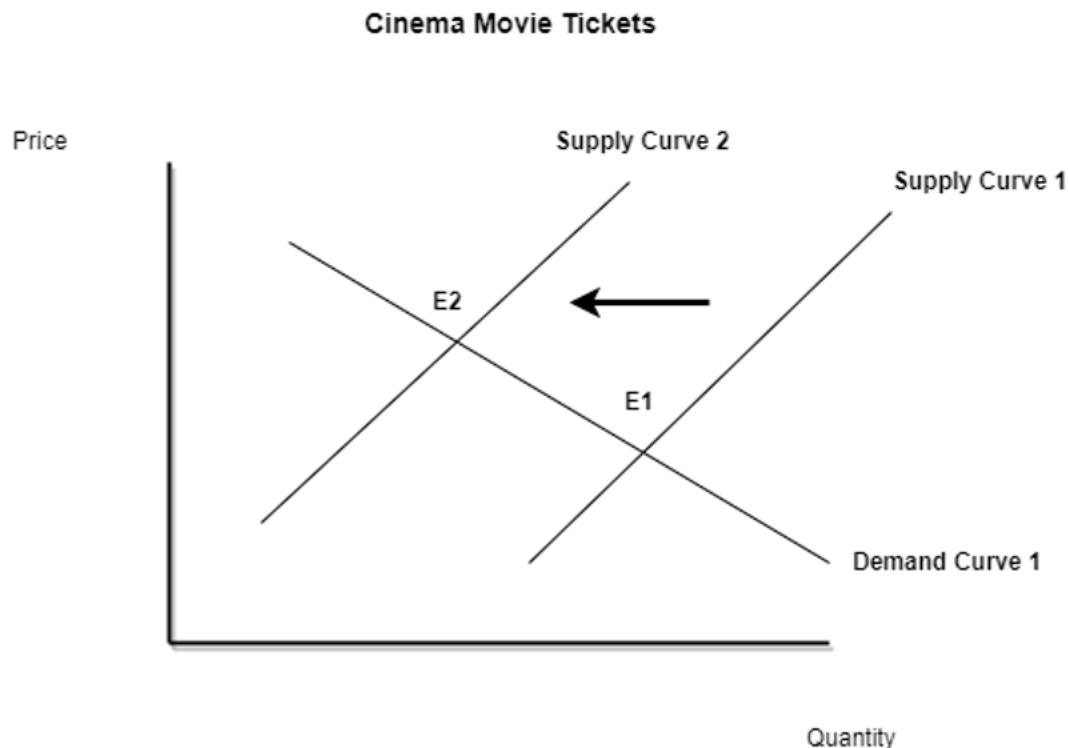


Figure 1.1 – Market for Cinema Movies

Question 4

In relation to the **Figure 1.1**, which of the following **best explains** the change in the market for cinema movie tickets?

- A. a contraction supply occurred because the costs of production decreased
- B. a decrease in demand occurred because preferences shifted to video-on-demand services such as Netflix
- C. a contraction in demand resulted from the costs of production declining
- D. a decrease in supply occurred because the costs of production increased

Question 5

Which of the following will have a positive effect on living standards in Australia?

- A. a rise in the level of COVID19 mental illness conditions
- B. a rise in the level of crime in city and suburban areas
- C. a rise in the literacy rates of newly arrived migrants to Australia
- D. a rise in the level of serious workplace accidents

Question 6

The table below shows selected data for an economy

Economic Indicators	Year 1	Year 2
Productivity Growth	2%	1%
Inflation Rate	1.8%	2%

From the data in the table above it can be concluded that between Year 1 and Year 2 the economy experienced

- A. a decline in international competitiveness
- B. a decrease in the relative competitiveness of the economy in global markets
- C. a worsening of the international competitiveness within the economy
- D. all the above are correct

Question 7

Which of the following policy initiatives is **not** designed to affect aggregate supply and living standards?

- A. reforming welfare payments to ensure recipients are encouraged to seek employment
- B. reducing the tax burden on individuals
- C. investment in infrastructure
- D. the cash rate being decreased by the RBA

Question 8

Which of the following policy initiatives **is likely** to have a different effect on aggregate demand from the other three?

- A. introduction of Job Keeper to boost household income and a cut to company tax rates
- B. withdrawal of the home stamp-duty tax for first home buyers and increase to the rate of the Newstart allowance
- C. budgetary cutbacks on investment in National infrastructure projects
- D. the reduction in the tax rates of the progressive income tax system of Australia

Question 9

Which of the following situations best explains a price elasticity of supply that is elastic?

- A. a small percentage change in price causes a large percentage change in quantity supplied
- B. a large percentage change in price causes a small percentage change in quantity supplied
- C. a small percentage change in price causes a large percentage change in quantity demanded
- D. a large percentage change in price causes a large percentage change in quantity demanded

Question 10

The table below shows selected data for an economy

Balance of payments item	\$bn
Capital and Financial Account	250
Net Services	150
Net Primary Incomes	50
Net Secondary Incomes	-100

For this economy the balance on net exports is

- A. -\$100bn and the balance on current account is -\$500bn.
- B. -\$350bn and the balance on current account is -\$250bn.
- C. -\$150bn and the balance on current account is \$500bn.
- D. -\$350bn and the balance on current account is \$250bn.

Question 11

An expansionary stance for monetary policy by the Reserve Bank of Australia (RBA) could be achieved by

- A. selling Commonwealth Government securities to decrease cash in the overnight money market
- B. buying Commonwealth Government securities to decrease cash in the overnight money market
- C. selling Commonwealth Government securities to increase cash in the overnight money market
- D. buying Commonwealth Government securities to increase cash in the overnight money market

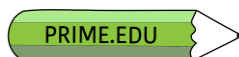
Question 12

Which of the following types of government expenditure is **most likely** to directly increase the household sectors disposable income?

- A. transfer payments
- B. current expenditure
- C. capital expenditure
- D. consumption expenditure

Question 13

In the market for second-hand motor vehicles, what effect will an increase in demand have while the level of supply remains unchanged?



- A. price will increase and quantity demanded will decrease
- B. price will decrease and quantity demanded will decrease
- C. price will increase and quantity demanded will increase
- D. price will decrease and quantity demanded will increase

Question 14

The underlying inflation rate

- A. is usually lower than the headline inflation rate when the prices of volatile goods are falling faster than other goods
- B. includes all one-off or volatile price increases in its measurement
- C. is usually higher than the headline inflation rate when the prices of volatile goods are rising faster than other goods
- D. is usually higher than the headline inflation rate when the prices of volatile goods are falling faster than other goods

Question 15

The table below shows selected Gross Domestic Product (GDP) data for a hypothetical economy

Period of time	GDP measure (\$Billions)
Year 1	80
Year 2	100
Year 3	120

Which of the following **best describes** the change/s in Gross Domestic Product (GDP) in the hypothetical economy?

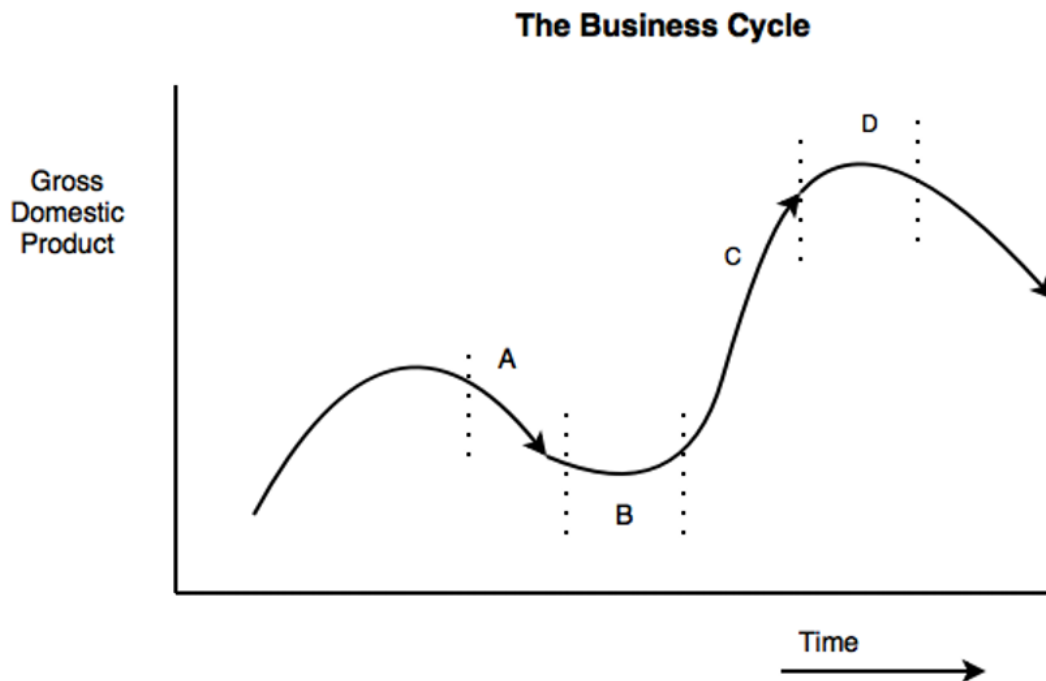
- A. The rate of change of GDP has remained unchanged through Year 1 to Year 3
- B. The rate of change of GDP has increased through Year 1 to Year 3
- C. The rate of change of GDP from Year 1 to Year 2 is smaller than the rate of change in GDP from Year 2 to Year 3
- D. The rate of change of GDP from Year 1 to Year 2 is greater than the rate of change in GDP from Year 2 to Year 3

**END OF SECTION A
TURN OVER**

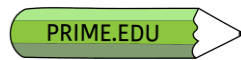
SECTION B – Written responses

Instructions for Section B

Answer **all** questions in the spaces provided

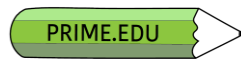
Question 1 (15 marks)**Figure 1.2 – The Business Cycle**

- a. Outline the economic features of an economy that is operating at point 'C'. (3 marks)



- b.** From Figure 1.2, describe what is happening in the economy that shifts from 'A' to 'B' in the business cycle. Describe what change to one aggregate demand factor could cause this shift from 'A' to 'B'. (4 marks)

- c.** Describe how budgetary automatic stabilisers will operate to support an economy experiencing low levels of economic growth. (4 marks)



- d. Assess how **one** budgetary initiative from the 2021-2022 budget could support the achievement of strong and sustainable economic growth. (4 marks)

Question 2 (17 marks)

Commodity markets suffered a violent sell-off as mounting anxiety about slower global economic growth sent oil and metal prices tumbling and iron ore plunged on weaker steel demand. The Australian currency fell to a 10-month low.

Source 1: <https://www.afr.com/markets/commodities/iron-ore-enters-freefall-amid-global-commodity-sell-off>

- a. Explain why the price of Australia's number one export iron ore falling is likely to affect the Australian dollar (3 marks)

- b. Define international competitiveness. (2 marks)



- c. Explain the relationship between international competitiveness and dynamic efficiency. (4 marks)

A depreciation of the Australian dollar and increase to the official cash rate by the Reserve Bank will improve Australia's international competitiveness.

- d. Justify using economic reasoning to what extent this statement is correct. (8 marks)

[illegible]

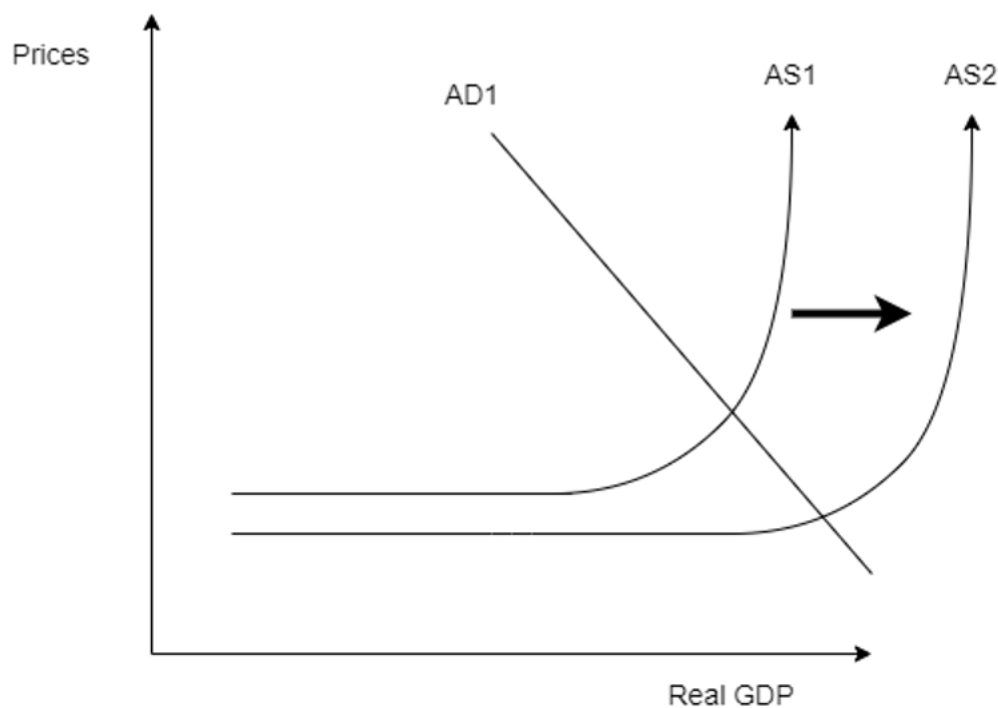


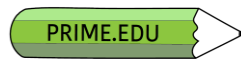
Figure 1.3 - Aggregate Demand and Aggregate Supply Graph

a. Select one of the aggregate supply factors below

- technological change
- climatic conditions

Analyse how the aggregate supply factor chosen could have caused the shift in the Figure 1.3.
(3 marks)

b. Discuss the relationship between aggregate supply and Australia's unemployment rate.
(4 marks)



A Treasury member said,

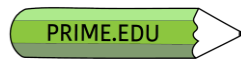
“...during the COVID19 pandemic the Australian governments focus has been on boosting aggregate demand...and hence in the last few years aggregate supply policies have been neglected”

- c. To what extent do you agree with the statement above. Use current knowledge and economic reasoning to justify your answer. (6 marks)

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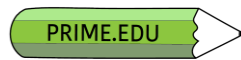
- d. Explain one strength and one weakness of the government using budgetary policy to influence short-term economic growth. (4 marks)

[illegible]



Question 4 (16 marks)

- a. Why is relative scarcity the reason that opportunity costs is inevitable? (4 marks)

[illegible]

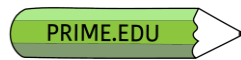
Price Elasticity of Demand (PED) for Products

Product	Measure of PED
House	2
Milk	0.33
Netflix	4

Table 1.1 – Price Elasticity of Supply for Houses, Milk and Netflix

- b. Explain why the price elasticity of demand for Netflix is 4 and why the price elasticity of demand for Milk is 0.33. (4 marks)

[illegible]



c. Outline two conditions of a perfectly competitive market. (2 marks)

[illegible]

d. Explain why government intervention in a market can (3 + 3 = 6 marks)

- i. effect the role of relative prices allocating resources
- ii. address market failure caused by common access resources

i. _____



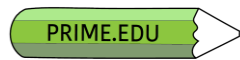
ii.

END OF QUESTION AND ANSWER BOOK

Extra space for responses

Clearly number all responses in this space

[illegible]



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