VICTORIAN CURRICULUM AND ASSESSMENT AUTHORITY

Victorian Certificate of Education 2021

SUPERVISOR TO ATTACH PROCESSING LABEL HERE

STUDENT NUMBER | | | | | | | | | Letter | |

ECONOMICS

Written examination

Thursday 11 November 2021

Reading time: 3.00 pm to 3.15 pm (15 minutes)
Writing time: 3.15 pm to 5.15 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	4	4	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 space 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

Two indicators of an expansionary budgetary policy are

A. lower tax rates and increased government spending.

B. higher tax rates and decreased government spending.

C. lower interest rates and increased government spending.

D. higher interest rates and decreased government spending.

Question 2

Which of the following would most likely be the effect on the fruit market of a shortage of fruit pickers during a harvesting period?

A. a decrease in supply to the market and higher prices

B. a decrease in demand in the market and lower prices

C. an increase in supply to the market and lower prices

D. an increase in demand in the market and higher prices

Question 3

Which one of the following is **not** likely to contribute to a rise in house prices?

A. lowering of interest rates

B. easing restrictions on lending

C. government spending on new public housing

D. removal of border restrictions, allowing more immigration

Question 4

Consider the following data showing the Consumer Price Index (CPI) for a number of quarters in a hypothetical economy.

Quarter	CPI
June 2020	110.0
Sept. 2020	110.7
Dec. 2020	111.1
Mar. 2021	111.6
June 2021	112.0

The inflation rate for the year ended June 2021 is

A. 2%

B. 1.8%

C. 1%

D. 0.8%

Question 5

The opportunity cost of building a new road network could be

A. increased noise pollution.

B. a reduction in public transport usage.

C. the inability to adequately fund education.

D. the road levy charged to all users of the road.

Question 6

The removal of a 5% tariff on imported cars would result in a shift of

A. the supply curve for cars to the left and a higher equilibrium price.

B. the supply curve for cars to the right and a lower equilibrium price.

C. the demand curve for cars to the right and an increase in the equilibrium price.

D. both the demand and supply curves for cars to the right and no change in the equilibrium price.

Question 7

Expansionary monetary policy is most likely to be maintained if the

A. Australian Government is still running a budget deficit.

B. value of the Australian dollar is below its long-term average.

C. rate of inflation is below the Reserve Bank of Australia's (RBA) target.

D. unemployment rate is below what is required to achieve full employment.

Question 8

Which one of the following policies would **not** be considered an example of an aggregate supply policy?

A. a reduction in interest rates
B. a reduction in company tax rates
C. an increase in government infrastructure spending
D. an increase in government investment in education and training

Question 9

Which one of the following is **not** a likely effect of trade liberalisation?

A. a decrease in structural unemployment in the short term
B. an incentive for domestic firms to achieve greater efficiency
C. long-term improvement in material living standards
D. a reduction in costs for firms that use imports in the production process

Question 10

Which one of the following goods is **not** likely to be considered a public good?

A. a fireworks display
B street lighting
C. healthcare services
D. free-to-air TV broadcasts

Question 11

Which one of the following is **not** a role of the RBA?

A. adjusting tax rates
B. issuing Australia's bank notes
C. managing foreign currency reserves
D. providing specialist banking services to the Australian Government

Question 12

Consider the following data for a hypothetical economy.

employed persons	11 million
unemployed persons	1 million
persons not in the labour force but of working age (over 15 years of age)	8 million

Using this data, the labour force participation rate is

A. 50%
B. 55%
C. 60%
D. 65%

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Question 13

A reduction in the cash rate is likely to result in

A. an increase in the value of the Australian dollar and a lower inflation rate.

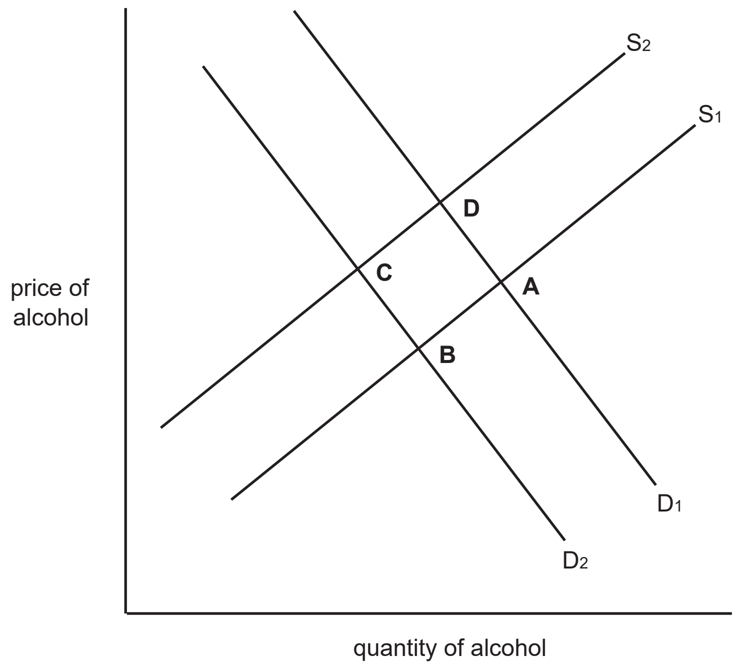
B. a decrease in the value of the Australian dollar and a higher inflation rate.

C. a decrease in the value of the Australian dollar and a higher unemployment rate.

D. an increase in the value of the Australian dollar and a lower unemployment rate.

Question 14

The diagram below shows the market for alcohol.



A successful advertising campaign designed to inform the public of the dangers of excessive alcohol consumption would result in a change in the equilibrium position from

A. C to B.

B. A to D.

C. C to D.

D. A to B.

Question 15

Which one of the following products would have a vertical supply curve?

A. apples

B. haircuts

C. streaming services

D. paintings by an artist who is now dead

END OF SECTION A
TURN OVER

SECTION B – Written responses

Instructions for Section B

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

Question 1 (16 marks)

… the economy is expected to operate with considerable spare capacity for some time to come
… the central scenario is for unemployment to be around 6 per cent at the end of this year …

Source: statement by Philip Lowe, Governor of the Reserve Bank of Australia, 'Monetary Policy Decision', media release, 2 February 2021, <www.rba.gov.au>

a. Explain what is meant by the goal of full employment. 2 marks

b. With reference to **one** aggregate demand and **one** aggregate supply factor, explain why the Reserve Bank of Australia's (RBA) forecast in February 2021 that unemployment would be around 6 per cent at the end of this year was inaccurate. 5 marks

c. With reference to **one** transmission mechanism, explain how the current monetary policy stance is designed to influence aggregate demand and the achievement of full employment. 5 marks

d. Explain two weaknesses associated with using monetary policy to achieve full employment. 4 marks

Weakness 1 ______________________________

Weakness 2 ______________________________

Question 2 (25 marks)

a. Explain the likely effect of the Australian Government's forecast budget outcome for 2021–22 on the level of government (public) debt. 3 marks

b. With respect to the Australian Government's budgetary policy, explain the difference between the role of automatic stabilisers and discretionary stabilisers in influencing aggregate demand and stabilising the business cycle. Use an example of each type of stabiliser that may have operated over the past two years to support your explanation. 8 marks

SECTION B – Question 2 – continued

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c. Describe one strength and one weakness of the operation of the Australian Government's budgetary policy in **either** 2020 **or** 2021 in stabilising aggregate demand and achieving the Australian Government's domestic macroeconomic goal of strong and sustainable economic growth. 6 marks

Strength of budgetary policy

Weakness of budgetary policy

d. Explain how **one** of the following aspects of the Australian Government's budgetary policy might influence aggregate supply and the achievement of the goal of low inflation:

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

4 marks

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e. Select **one** example of **either** a taxation reform policy **or** a welfare reform policy that has been implemented in Australia and describe how this policy might influence both aggregate supply and material living standards. 4 marks

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Question 3 (13 marks)

[1]In the period 1961–2017, the average annual growth rate of total food fish consumption increased at 3.1 percent, outpacing annual population growth rate (1.6 percent).

[2]The [percentage] of fish stocks that are within biologically sustainable levels decreased from 90 percent in 1974 to 65.8 percent in 2017.

Source: Food and Agriculture Organization of the United Nations (FAO), *The State of World Fisheries and Aquaculture: Sustainability in Action*, Rome, 2020, pp. 13 (quote 2) and 15 (quote 1)

a. Outline **one** demand factor **or one** supply factor that might explain the increase in total fish consumption over the stated period. 2 marks

b. With reference to the quotes provided on page 16 and to the characteristics of common access resources, explain why there may be an inefficient allocation of resources in the fish market. 3 marks

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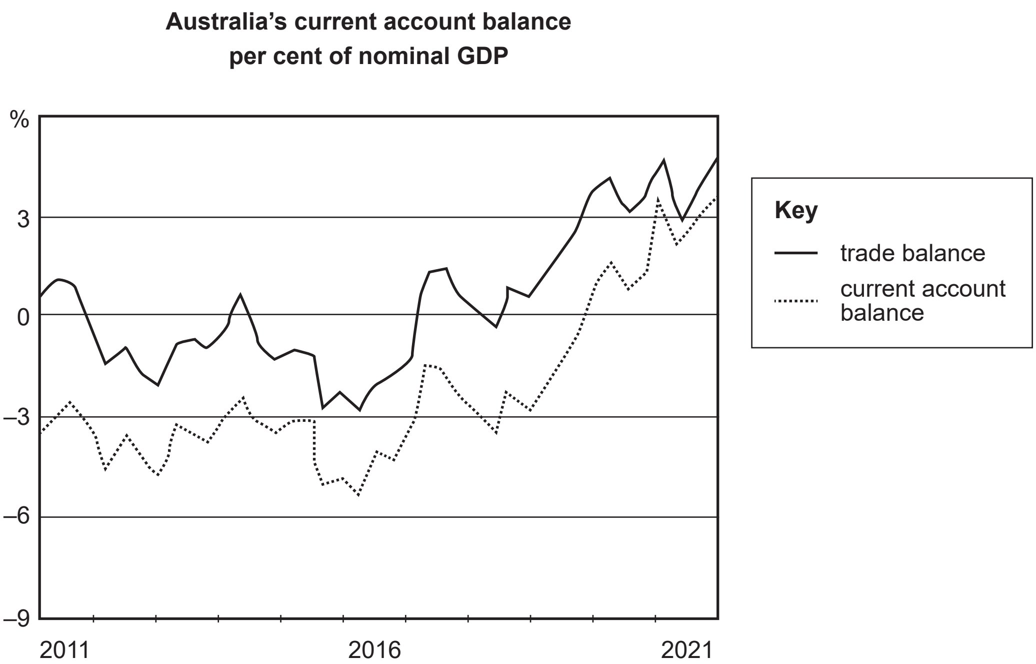
c. Explain **one** example of government intervention that could be utilised to reduce the degree of market failure associated with common access resources. 3 marks

d. With reference to **one** example, explain how the consumption of a good or service may be associated with positive externalities. 2 marks

e. Explain **one** factor that would affect the price elasticity of supply of fish. 3 marks

Question 4 (11 marks)



Source: adapted from ABS; RBA Chart Pack, 'The Australian Economy and Financial Markets', August 2021, p. 18

a. With reference to the graph above, explain the trend in the current account balance over the past two years. 2 marks

b. Explain how the current account balance over the past two years would have affected the balance on the capital and financial account. 2 marks

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c. With reference to the graph on page 20, explain how the performance in the trade balance over the past two years might have affected both:

- the achievement of the goal of strong and sustainable economic growth
- Australia's living standards.

4 marks

d. Explain how a change in **one** structural factor might result in improvement in the current account balance. 3 marks

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END OF QUESTION AND ANSWER BOOK

Extra space for responses

Clearly number all responses in this space.

An answer book is available from the supervisor if you need extra space to complete an answer. Please ensure you write your **student number** in the space provided on the front cover of the answer book.
At the end of the examination, place the answer book inside the front cover of this question and answer book.