

Student Name:



2023 VCE ECONOMICS UNITS 3 and 4

Practice Examination - A

QUESTION AND ANSWER BOOK

Structure of book

<i>Section</i>	<i>Number of questions to be answered</i>	<i>Number of marks</i>
A	15	15
B	3	65
		TOTAL: 80

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

Materials supplied

- Question and Answer Book of 19 pages.

Instructions

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

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

Section A – Multiple Choice Questions

Question 1

Which of the following is not likely to be a consequence of failing to achieve the goal of strong and sustainable economic growth?

- A. High levels of unemployment.
- B. High levels of inflation.
- C. High levels of consumer confidence.
- D. High levels of environmental degradation.

Question 2

	Millions
Aged 15 and over	100
Unemployed	8
Employed	62
Underemployed	12
Studying full time	5

Referring to the table above for the hypothetical economy of Footyville. The labour force participation rate is:

- A. 82%
- B. 79%
- C. 70%
- D. 62%

Question 3

Which of the following is not a strength of monetary policy to affect the goal of low inflation?

- A. Relatively short impact lag
- B. Relatively short implementation lag
- C. Free of political bias
- D. Ability to reduce discretionary incomes of borrowers

Question 4

Expenditure by a supermarket on locally produced breakfast cereal for resale is an example of:

- A. Private Consumption expenditure
- B. Private Investment expenditure.
- C. Export expenditure.
- D. Import expenditure.

Question 5

Aggregate supply policies can complement aggregate demand policies in promoting non-inflationary economic growth over time by:

- A. Increasing demand inflationary pressures in the short run
- B. Increasing the productive capacity of the economy in the long run.
- C. Increasing structural unemployment in the short run.
- D. Increasing levels of government debt in the long run.

Question 6

Andrew worked as a sales assistant at a local surf-shop. Unfortunately, he's recently been made redundant to cut costs due to a significant drop in sales impacting on the profitability of the business. The type of unemployment experienced by Andrew is:

- A. Structural.
- B. Seasonal.
- C. Temporary.
- D. Cyclical.

Question 7

Australia's significant increase in skilled migration in 2022/23 aims to:

- A. Increase demand pressure in Australia's rental market.
- B. Increase the quantity and quality of Australia's labour force.
- C. Improve Australia's labour productivity.
- D. Place downward pressure on Real Unit Labour Costs.

Question 8

Which of the following is not a characteristic of a perfectly competitive market?

- A. Many buyers and sellers.
- B. The existence of zero opportunity costs for buyers.
- C. Low or non-existent barriers to entry and exit of the market.
- D. Homogeneous good or service.

Question 9

A negative short-term impact of the policy of trade liberalisation could be:

- A. Increased inflation as a greater quantity of foreign sellers compete with Australian producers.
- B. Increased structural unemployment as Australian firms that are not internationally competitive are forced to downsize.
- C. Increased cyclical unemployment as Australian firms replace labour with capital to improve their level of international competitiveness.
- D. Increased dynamic efficiency of the Australian economy as resources move towards Australia's most internationally competitive industries.

Question 10

	Year 1	Year 2
Export Price Index	100	100
Import Price Index	100	80

Referring to the above data for the hypothetical economy of Rockville. The terms of trade in Year 2 is:

- A. 80
- B. 100
- C. 125
- D. 200

Question 11

The Australian Government receives interest income on US Treasury Bonds. Which sub-account of the Australia's current account would the transaction be recorded in?

- A. Balance of merchandise trade
- B. Net Services
- C. Net Primary Incomes
- D. Net Secondary Incomes

Question 12

Which of the following is not a method that can be used by the Australian Government to finance an underlying cash deficit?

- A. Increase income tax rates.
- B. Sell Australian Government Securities to Australian investors.
- C. Sell Australian Government Securities to overseas investors.
- D. Sell Australian Government Securities to Australian and overseas investors.

Question 13

Research and development can assist in improving Australia's aggregate supply by:

- A. improving the skills of workers in Australia's labour force.
- B. improving the competitiveness of Australia's taxation system.
- C. improving the dynamic efficiency of Australia's tradables sector.
- D. improving the productive efficiency of Australia's manufacturing industries.

Question 14

The type of market failure that can exist in health insurance market, whereby buyers have more knowledge than sellers is referred to as:

- A. Opportunity cost.
- B. Negative externalities.
- C. Information asymmetry.
- D. Positive externalities.

Question 15

The price elasticity of demand for cigarettes is often described as inelastic because:

- A. For a given increase in price there is a proportionately smaller reduction in quantity demanded.
- B. For a given increase in price there is a proportionately larger reduction in quantity demanded.
- C. For a given increase in price there is a proportionately smaller reduction in quantity supplied.
- D. For a given increase in price there is a proportionately larger reduction in quantity supplied.

Section B – Written Responses

Question 1 (12 marks)

- a. Explain two reasons why a demand curve is downward sloping.

3 marks

Supplies of fresh potatoes may be down by up to 40% in 2022 as floods in New South Wales and Victoria and overseas droughts have crippled supply. In addition, rising transport and fertilizer costs have further hurt the viability of Australia's potato farming industry.

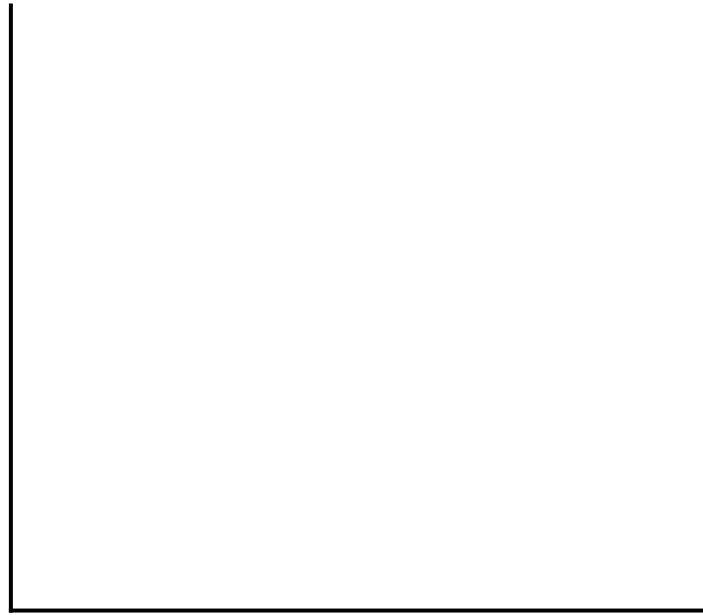
Note - This is a fictional statement.

- b. With reference to the above statement, describe how a non-price supply factor has impacted on the market for potatoes.

2 marks

- c. Construct a fully labelled demand and supply diagram demonstrating the change in the non-price supply factor for potatoes described in **part b**.

3 marks



- d. Analyse how a change in the non-price supply factor from **part b** impacts upon equilibrium price and quantity in the potato market.

4 marks

Question 2 (33 marks)

- a. Outline the Australian Government's goal of low and stable inflation.

2 marks

- b. Outline one aggregate demand and one aggregate supply factor that could have contributed to inflation over the past two years.

4 marks

Period	Annual percentage change in the volume of exports in current prices
Jul 2021	3.8
Oct 2021	3
Jan 2022	3.5
Apr 2022	5.1
Jul 2022	6.1
Oct 2022	7.3
Jan 2023	7.8
Apr 2023	7

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c. Evaluate the extent to which the Australian government has achieved its goal of low and stable inflation in the past two years. Include reference to figure 1 in your response.

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.

- d. Explain one consequence of not achieving the Australian Government's goal of low and stable inflation.

3 marks

- e. Explain how conventional monetary policy is used by the Reserve Bank of Australia (RBA) to influence interest rates in Australia.

4 marks

- f. Explain how the asset prices and wealth channel and the cash flow channel were used by the RBA to influence aggregate demand and inflation in 2023.

6 marks

[illegible]

- g. Outline one automatic stabiliser and one discretionary stabiliser from the past two years and explain its impact on aggregate demand.

4 marks

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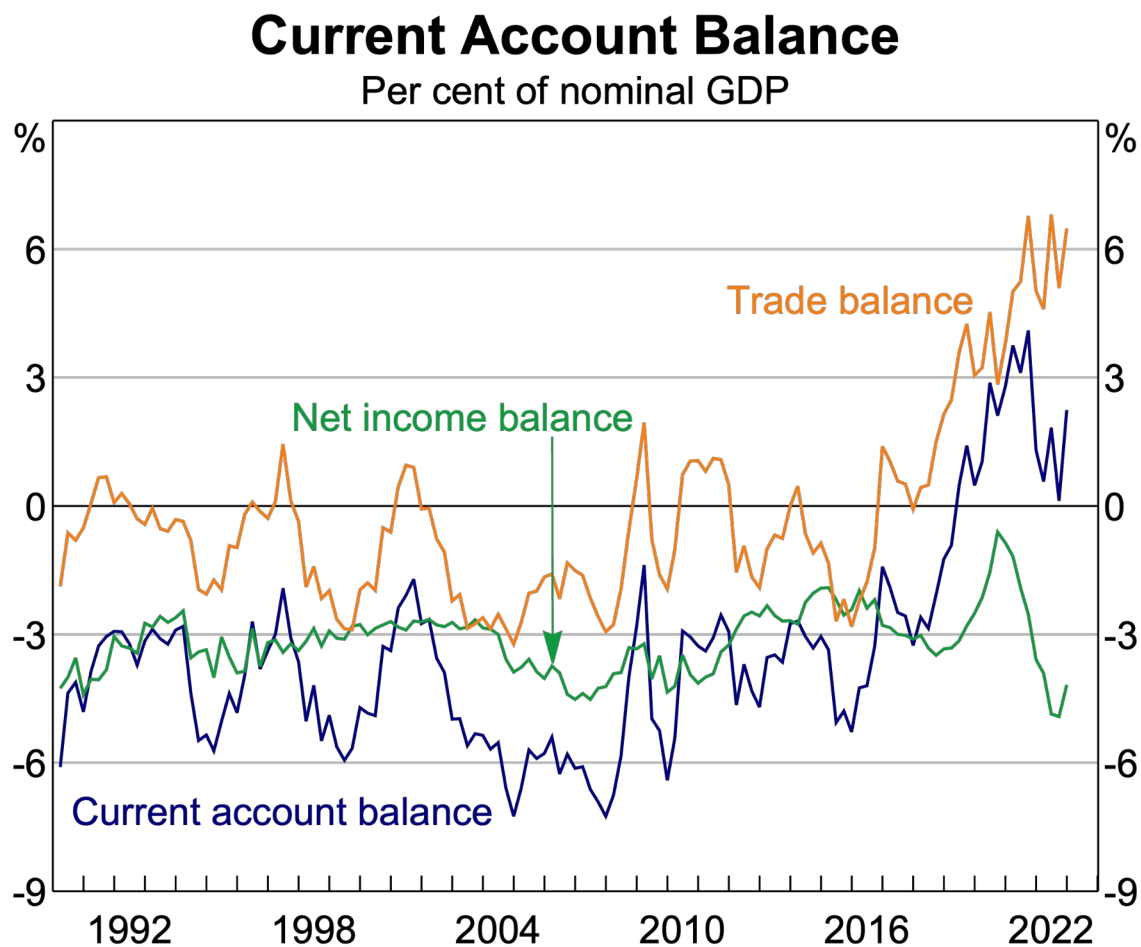
- h. Analyse the strengths and weaknesses of budgetary policy in achieving the Australian government's goal of low and stable inflation.

6 marks

[illegible]

Question 3 (8 marks)

Figure 1 - Australia's Current Account Balance



Source: ABS

Source: <https://www.rba.gov.au/chart-pack/balance-payments.html> accessed 4/6/23

- a. Describe what is measured by the current account balance of Australia's balance of payments.

2 marks

- b. With reference to figure 1, describe the trend in Australia's current account balance over the past 5 years.

2 marks

- c. Explain one cyclical and one structural cause of the trend described in part b.

4 marks

Question 4 (12 marks)

- a. Explain how investment in training and education and infrastructure can positively impact upon Australia's productive capacity, aggregate supply and achievement of the goal of strong and sustainable economic growth.

6 marks

[illegible]

b. Analyse the impact of an environmental policy on aggregate supply and living standards over time.

6 marks

[illegible]

[illegible]

[illegible]