

Student Name:



2023 VCE ECONOMICS UNITS 3 and 4

Practice Examination - B

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 one of the following may cause the unemployment rate to rise?

- A. free TAFE courses to address the issue of skills shortages
- B. Opening more universities across Australia
- C. an increase in the labour force participation rate
- D. delivering favourable Terms of Trade over two consecutive years

Question 2

During the summer months, it is likely that in a purely competitive market the price of ski equipment would

- A. increase and the quantity of ski equipment sold would increase.
- B. decrease and the quantity of ski equipment sold would decrease.
- C. increase and the quantity of ski equipment sold would decrease.
- D. decrease and the quantity of ski equipment sold would increase.

Question 3

- i. The global economy is getting weaker.
- ii. Domestic spending is getting stronger.
- iii. Australia delivers a large trade deficit; imports exceed exports.

Based on the assumptions given above, which of the following statements would be most correct in relation to the value of the Australian dollar (AUD)?

- A) The value of the Australian dollar is likely to decrease as the weakening global economy reduces demand for the currency, making it less attractive to investors.
- B) The value of the Australian dollar is likely to increase as stronger domestic spending indicates a robust economy, attracting foreign investors and driving up demand for the currency.
- C) The value of the Australian dollar is likely to decrease as the large trade deficit, where imports exceed exports, puts pressure on the currency's value, making it less desirable for international trade.
- D) The value of the Australian dollar is likely to remain unchanged despite the given assumptions, as the interplay between the weakening global economy, stronger domestic spending, and large trade deficit may create a balancing effect on the currency's value.

Question 4

What is the impact of an economic expansion on government revenues and expenditure?

- A. Both progressive taxation receipts and unemployment benefit payments increase.
- B. Both progressive taxation receipts and unemployment benefit payments decrease.
- C. Progressive taxation receipts decrease, and unemployment benefit payments increase.
- D. Progressive taxation receipts increase, and unemployment benefit payments decrease.

Question 5

Quarter	CPI
March 2022	110
June 2022	111
September 2022	112
December 2022	115
March 2023	118
June 2023	120

Consider the above data showing the Consumer Price Index (CPI) for a number of quarters in a hypothetical economy. The inflation rate for the year ended June 2023 is

- A. 9.1 %
- B. 8.1%
- C. 4.3%
- D. 1.7%

Question 6

Which of the following is an example of an opportunity cost of choosing to invest in renewable energy infrastructure instead of expanding traditional coal-fired power plants, as part of a recent government initiative in Australia?

- A. Decreased reliance on fossil fuels and reduced carbon emissions.
- B. Potential job losses in the coal mining industry.
- C. Increased investment in research and development of clean energy technologies.
- D. Higher electricity prices for consumers due to the initial costs of renewable energy infrastructure.

Question 7

Despite the movement towards renewable energy, Australia still relies heavily on coal - which many see as a source of energy that is polluting and a major contributor to climate change. This might result in:

- A. A decrease in dynamic efficiency
- B. A decrease in intertemporal efficiency
- C. A decrease in allocative efficiency
- D. An increase in technical efficiency

Question 8

The most likely effect of an increase in commodity prices would be

- A. a favourable movement in Australia's terms of trade and a depreciation of the Australian dollar.
- B. a favourable movement in Australia's terms of trade and an appreciation of the Australian dollar.
- C. an unfavourable movement in Australia's terms of trade and a depreciation of the Australian dollar.
- D. an unfavourable movement in Australia's terms of trade and an appreciation of the Australian dollar.

Question 9

Which of the following options accurately describes the situation when Australia's foreign equity assets surpass its foreign equity liabilities?

- A. Australia has made lower investments overseas compared to the investments made by foreigners in Australia.
- B. Australia has made higher investments overseas compared to the investments made by foreigners in Australia.
- C. The Australian Government has increased its overseas borrowings to finance budget deficits.
- D. The Australian Government has reduced its overseas borrowings to finance budget deficits.

Question 10

The opportunity cost of producing 40 units of capital goods at point D is :

- A. 100
- B. 70
- C. 40
- D. 30

100
Consumer
Goods

20

40 70
Capital goods.

Question 11

If an economy produces its most wanted goods but uses outdated production methods, it is:

- A. achieving productive efficiency, but not allocative efficiency.
- B. achieving allocative efficiency, but not productive efficiency.
- C. achieving both productive and allocative efficiency.
- D. achieving neither productive nor allocative efficiency

Question 12

If the supply of a product decreases and the demand for that product simultaneously increases, then equilibrium:

- A. price must rise, but equilibrium quantity may rise, fall, or remain unchanged.
- B. price must rise and equilibrium quantity must fall.
- C. price and equilibrium quantity must both increase.
- D. price and equilibrium quantity must both decline.

Question 13

A hypothetical economy has moved from a Current Account Deficit to a Current Account Surplus.

Which of the following is most likely to explain this?

- A. A decrease in net savings and depreciation of the currency
- B. A decrease in the price of imports and depreciation of the currency
- C. An increase in export prices and an increase in debt servicing costs
- D. An increase in business investment and a decrease in portfolio investment

Question 14

Migrant workers in Australia often send money back to their families overseas.

How is this recorded in Australia's Current Account?

- A. Primary Income debit
- B. Primary Income credit
- C. Secondary Income debit
- D. Secondary Income credit

Question 15

What is the most likely impact of a rise in the level of Australia's interest rates relative to overseas interest rates?

- A. An increase in foreign investment in Australia and a depreciation of the AUD
- B. An increase in foreign investment in Australia and an appreciation of the AUD
- C. A decrease in foreign investment in Australia and a depreciation of the AUD
- D. A decrease in foreign investment in Australia and an appreciation of the AUD

Section B – Written Responses

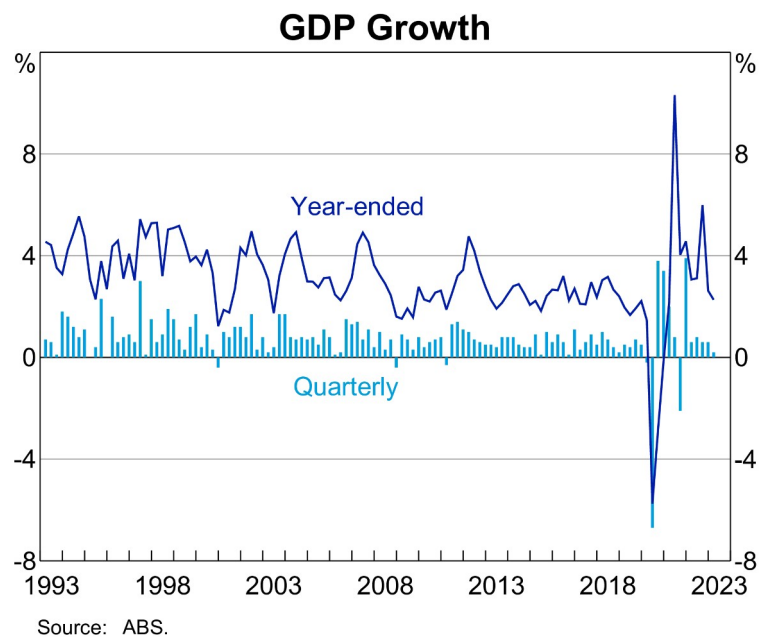
Question 1 (13 marks)

<i>Australia's financial books are on track to record a far higher than expected budget surplus of around \$19 billion, Department of Finance figures show.</i>	a. Distinguish between a budget deficit and a budget surplus.	3 marks
<i>... "The fact that we've turned a \$78 billion deficit that was forecast under the Liberal National Party government just over a year ago into a surplus that's in excess of \$4 billion is a positive thing," Mr Albanese said. "I believe that Australian families will look at the federal budget and say it is good that we have a government that is putting in place responsible budget management in order to put that downward pressure on inflation." But Opposition leader Peter Dutton says the federal government cannot "credibly take credit" for what could be the largest budget surplus ever delivered.</i>	b. Outline two ways that the government can utilise the budget surplus mentioned in the article above.	4 marks
Source: https://www.sbs.com.au/news/article/what-the-19-billion-budget-surplus-could-buy/wy7ynbf0y		

c. Explain how one automatic and one discretionary stabiliser might have led to a higher-than-predicted budget surplus over the last 12 months. 6 marks

7

Question 2 (7 marks)



Source: RBA Chart pack: Released on 5 July 2023 (data updated to 29 June 2023)

- a. In reference to the trend in the GDP Growth Graph above, assess the extent to which the Australian government has achieved its domestic macroeconomic goal of strong and sustainable economic growth over the last two year.

3 marks

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- [illegible]

- a. Explain how one demand and one supply factor might have caused the change in housing prices over the last two years.

5 marks

- b. Explain whether the supply of a house is likely to be price elastic or price inelastic. 3 marks

c. Considering the monetary policy stance over the last 12 months, Explain how the monetary policy decision may have influenced the housing market. Draw and label a demand and supply diagram to illustrate your explanation. 4 marks

[illegible]

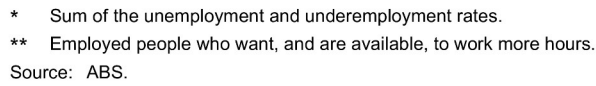
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Question 4 (9 marks)

Heads-based



- 3 marks

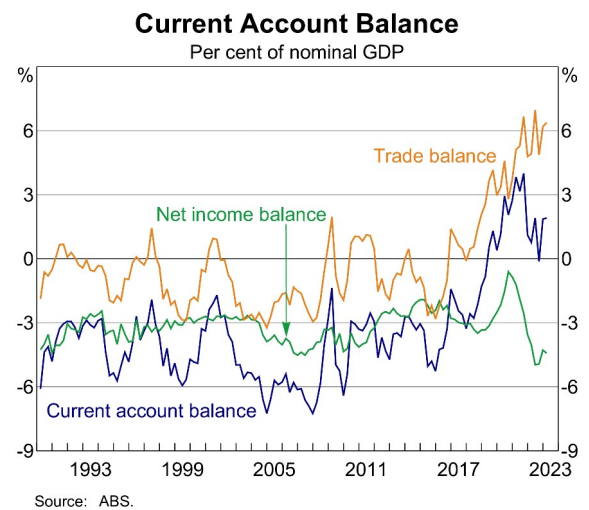
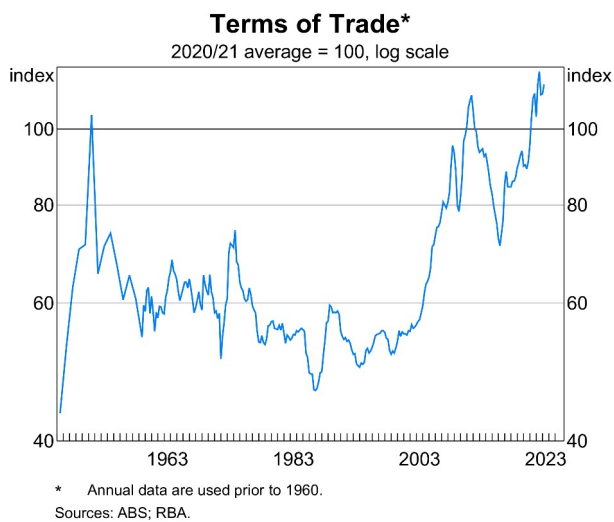
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- 3 marks

c. Outline one aggregate demand or one aggregate supply factor that might have contributed to the above trend in Australia's unemployment rate over the last two years. 3 marks

15

Question 5 (8 marks)



- a. In reference to the graphs above, explain the relationship between the trends in Australia's terms of trade and the current account balance over the last two years. 4 marks

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- b. Analyse how the trend in Australia's terms of trade might affect Australia's domestic macroeconomic goal of low inflation, and Australia's living standards. 4 marks

Question 6 (6 marks)

Source:
<https://www.afr.com/politics/federal/s-mokers-hit-with-3-3b-tobacco-tax-increase-20230502-p5d4yb>

- 3

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....the way tobacco products were taxed may be linked with higher e-cigarette use among young people, “We found that higher tobacco taxes were associated with higher levels of youth vaping,” Dr Chan said. This could suggest that young people in countries with a higher tobacco tax might be substituting traditional cigarettes with e-cigarettes.

Source <https://shorturl.at/fmCLZ>

- b.** With reference to the information given above, analyse how the government intervention in the tobacco products market resulted in the inefficient allocation of resources. 3 marks

Extra Writing Space

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