

COMMERCE PRESENTATIONS AND PUBLICATIONS



Letter

Figures

Words

Name _____

VCE ECONOMICS UNIT 3/4

CPAP Practice Examination A 2024

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 20 pages.
- Answer sheet for multiple choice questions (page 21).
- 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 book.

Students are NOT permitted to bring mobile phones and/or any other unauthorised electronic devices into the examination room

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 the **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

Which of the following government interventions is most likely to address market failure in the form of asymmetric information?

- A. indirect taxes
- B. direct provision of goods and services
- C. regulations
- D. subsidies

Questions 2 and 3 relate to the table below:

March quarter key figures, percentage changes	
Chain volume GDP and related measures	Mar 23 to Mar 24
GDP	1.1
GDP per capita	-1.3
Real net national disposable income	-0.5
Real unit labour costs	3.4
Terms of trade	-7.3

Source: ABS, Australian National Accounts: National Income, Expenditure and Product March 2024

Question 2

According to the statistics contained in the table, it can be concluded that over the year to end March 2024:

- A. The costs of production have fallen and commodity prices have increased
- B. Growth in real GDP has exceeded population growth and material living standards have increased
- C. The prices paid for imports have fallen and more goods and services have been produced
- D. Economic growth has increased and material living standards have declined

Question 3

In the event that these statistics are replicated in the remaining quarters of 2024, the likely policy responses are:

- A. A more expansionary monetary policy stance and the delivery of a larger structural budget deficit
- B. A less restrictive monetary policy stance and the delivery of a larger structural budget deficit
- C. A less restrictive monetary policy stance and the delivery of a smaller structural budget deficit
- D. A more expansionary monetary policy stance and the delivery of a smaller structural budget deficit

Question 4

Consider the following hypothetical data relating to the Consumer Price Index (CPI).

Quarter	CPI
Dec 2021	100.0
Mar 2022	100.5
June 2022	102.0
Sep 2022	104.0
Dec 2022	106.0
Mar 2023	111.0
June 2023	111.5
Sep 2023	113.5
Dec 2023	116.1
Mar 2024	115.8
June 2024	115.2

The inflation rate for the year to end December quarter 2023 is:

- A. 9.5%
- B. 2.3%
- C. 6.0%
- D. 3.3%

Question 5

Which of the following is most likely to represent a change in an 'aggregate supply factor' that reduces productive capacity?

- A. Annual productivity growth falling from 4% to 3%
- B. A decrease in the number of skilled independent visas being granted to migrants from 30,375 places to 16,900 places
- C. A loosening of monetary policy
- D. A fall in the trade weighted index

Question 6

The repayment of debt by Australian borrowers to foreign lenders is recorded in the balance of payments as:

- A. a credit in the capital and financial account
- B. a debit in the capital and financial account
- C. a credit in the current account
- D. a debit in the current account

Question 7

Which of the following is incorrect in relation to Australia's macroeconomic goals and/or living standards?

- A. Full employment requires the unemployment rate to be as low as possible before inflation becomes excessive
- B. Strong and sustainable economic growth requires real GDP to be increasing at a rate that continues to create employment and incomes, without causing excessive pressure on inflation and the environment
- C. Price stability requires that the general price level is reduced by 2-3% per year on average over time
- D. Living standards in material terms should improve when real GDP growth exceeds population growth

Question 8

The cost of living relief provided to Australian households during 2024 through the provision of energy rebates is designed to have which of the following effects?

- A. Reduce inflation as energy retailers are provided with an effective government subsidy to reduce energy bills
- B. Reduce inflation as households and businesses spend less on energy and other goods and services
- C. Increase inflation as people have more disposable income and spend more on goods and services
- D. Increase inflation as people have more discretionary income and spend more on goods and services

Question 9

In relation to trade liberalisation, which statement below is inaccurate?

- A. It can be evidenced by new free trade agreements and can cause a fall in unemployment
- B. It can be evidenced by falling tariffs and can cause a rise in unemployment
- C. It can be evidenced by higher tariffs and can cause living standards to improve
- D. It can be evidenced by new free trade agreements as well as lower tariffs and can improve efficiency in the allocation of resources

Question 10

Assume that a hypothetical economy has the following labour market statistics?

Total population	350 million
Working age population	300 million
Total employed	180 million
Job vacancies	15 million
Unemployed persons	20 million
Underemployed persons	10 million

The participation rate and the underutilisation rate are as follows

- A. Participation rate is 57% and the underutilisation rate is 5%
- B. Participation rate is 60% and the underutilisation rate is 15%
- C. Participation rate is 57% and the underutilisation rate is 22.5%
- D. Participation rate is 67% and the underutilisation rate is 15%

Question 11

An improvement in efficiency can sometimes be demonstrated by a movement along the production possibility frontier (PPF). Which combination of efficiency types below is most likely to be associated with a movement along the PPF.

- A. Allocative and intertemporal
- B. Allocative and productive
- C. Productive and intertemporal
- D. Dynamic and productive

Question 12

Which of the following is not consistent with a free and perfectly competitive market?

- A. An absence of government regulations
- B. Restrictions on the entry of firms into a market
- C. Product homogeneity
- D. Many buyers and sellers

Question 13

In relation to cyclical unemployment and structural unemployment:

- A. Cyclical unemployment will be highest during the boom phase of the economic cycle and is best targeted by an increase in the target cash rate
- B. Structural unemployment will usually decrease following tariff reductions and is best targeted by a reduction in personal income tax rates
- C. Cyclical unemployment will be highest during the downturn phase of the economic cycle and is best targeted by a loosening of monetary policy
- D. Structural unemployment will usually increase following a rise in tariffs and is best targeted by budgetary policy supply side initiatives

Question 14

With respect to headline and underlying inflation, which of the following statements is incorrect?

- A. The underlying rate of inflation will be above the headline rate when there is a decrease in the price of volatile items such as petrol
- B. The headline rate of inflation will be above the underlying rate following supply shocks to the economy (e.g. a natural disaster)
- C. The underlying rate can be measured by the RBA's weighted median which is the average of all price changes in the CPI
- D. The underlying rate can be measured by the RBA's trimmed mean where the middle 70% of price changes recorded in the CPI are considered whereas the headline rate includes all price changes

Question 15

During a period of lower interest rates, the asset prices and wealth channel primarily helps to stimulate aggregate demand and create jobs by increasing

- A. consumption demand as the value of properties rise and homeowner wealth increases
- B. consumer confidence which leads to a rise in consumption and aggregate demand
- C. investment in houses which encourages house construction
- D. consumption and investment as the cost to service existing loans will decrease

SECTION B

Question 1 (6 marks)

Identify the 'three basic economic questions' faced by an economy and describe how two of these questions are answered in the Australian economy. 6 marks

6 marks

[illegible]

Question 2 (22 marks)

- a. Making reference to a relevant economic statistic/indicator, describe the stage of the business cycle that Australia is likely to be in during 2024. Use a business cycle diagram in the space below to support your description.

5 marks



- b. Explain how the recent increase in government spending on JobSeeker allowance (unemployment benefits) helps to increase aggregate demand (AD) and assist with economic recovery.

3 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.

- c. Describe how the appreciation of Australia's exchange rate between February and July of 2024 is likely to influence Australia's position on the business cycle. 3 marks

[illegible]

- d. Explain how the recent appreciation of the exchange rate assists with the achievement of one of the RBA's macroeconomic goals.

5 marks

[illegible]

- e. Explain how an exchange rate appreciation might reduce the current account surplus (CAS). 3 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.

- f. Describe one other factor, apart from a change in the exchange rate, that might contribute to a structural increase in the current account surplus. 3 marks

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Question 3 (16 marks)

'Inflation is the primary focus of the Budget in the near term. As inflation moderates, fiscal policy will shift emphasis towards promoting sustainable economic growth and public finances over time. This is achieved through a balanced approach that manages near-term risks to inflation and growth, puts in place reforms to build a stronger and more resilient economy, and safeguards fiscal sustainability.'

Source: 2024-25 Budget Paper No. 1, Page 73

- a. Referring to the most recent 2024-25 Budget, outline why it can be argued that the current stance of budgetary policy is expansionary.

3 marks

- b. Analyse how continuing low rates of unemployment and persistently high inflation have influenced the setting of aggregate demand policies over 2023-24. 6 marks

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c. Describe one structural influence and one cyclical influence on the budget outcome over the past year.

4 marks

- d. Describe a weakness of budgetary policy in terms of its ability to improve Australian living standards. Use a recent example to illustrate.

3 marks

- b. Describe one factor that might cause the slope/gradient of the demand curve for coal fired electricity to flatten (i.e. become less steep). 2 marks

- c. Analyse how one non-price factor will cause a rightward movement along the supply curve for coal fired electricity, resulting in a new equilibrium price and quantity. Use the diagram at the start of the question to illustrate. 5 marks

- d. Define market failure and explain how an increase in the production of coal fired electricity can be associated with market failure. Make appropriate reference to one of the market failures listed in the Study Design. 5 marks

- e. Explain how the government can use a market based environmental policy initiative to address the market failure referred to above. In your response refer to the role of relative prices and one type of efficiency.

6 marks

[illegible]