



**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 2, 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**

The Reserve Bank of Australia's current medium term monetary policy objective is

- A. to minimise the rate of inflation.
- B. to maximise the rate of economic growth.
- C. to keep the inflation rate between 0 and 3 per cent over the business cycle.
- D. to keep the annual inflation rate between 2 and 3 per cent on average over the business cycle.

**Question 2**

If the youth unemployment rate were 30 per cent, this would mean

- A. 30 per cent of youths are unemployed.
- B. 70 per cent of youths are employed.
- C. 30 per cent of youths in the workforce are unemployed.
- D. 30 per cent of youths are actively seeking work.

**Question 3**

The Goods and Services Tax (GST) is an example of

- A. a direct and progressive tax.
- B. an indirect and regressive tax.
- C. a direct and flat tax.
- D. an indirect and progressive tax.

**Question 4**

The Australian dollar is most likely to appreciate when

- A. there is an increase in the demand for commodities.
- B. the Reserve Bank of Australia sells Australian dollars in the foreign exchange market.
- C. the Federal Reserve increases US interest rates.
- D. there is a slowdown in world economic growth.

**Question 5**

Which one of the following is an example of an automatic stabiliser?

- A. the full privatisation of Telstra
- B. a reduction in marginal income tax rates
- C. an increase in interest rates due to higher inflation levels
- D. an increase in company tax collections due to stronger economic growth

**Question 6**

A market economy is unable to allocate resources efficiently when

- A. there are many buyers and sellers of a product.
- B. local producers face competition from imports.
- C. producers of a product impose an external cost on others.
- D. there is an unequal distribution of income in the economy.

**Question 7**

Brazil is the world's leading producer of coffee. Poor weather conditions severely cut Brazilian coffee production.

Assuming coffee drinkers also drink tea, this cut in coffee production is likely to lead to

- A. a decrease in the price of coffee and an increase in the price of tea.
- B. an increase in the price of coffee and an increase in the price of tea.
- C. an increase in the price of coffee and a decrease in the price of tea.
- D. a decrease in the price of coffee and a decrease in the price of tea.

**Question 8**

A tightening of monetary policy in Australia is most likely to occur if the

- A. rate of inflation moves above the Reserve Bank of Australia's target range.
- B. unemployment rate significantly increases.
- C. exchange rate suddenly appreciates.
- D. size of the budget surplus increases.

**Question 9**

The removal of tariff protection is likely to improve which of the following policy goals?

- A. allocative efficiency
- B. full employment
- C. external stability
- D. equity in the distribution of income

**Question 10**

An increase in the marginal rate of tax paid on high incomes combined with an increase in the rate of unemployment benefits is likely to have which of the following effects on the economy's Gini coefficient?

- A. increase
- B. decrease
- C. no change
- D. make the Gini coefficient equal to 1

**Question 11**

A policy mix which combines a budget deficit and expansionary monetary policy is most likely to result in

	<b>Rate of inflation</b>	<b>Rate of unemployment</b>	<b>Size of current account deficit</b>
<b>A.</b>	increase	decrease	increase
<b>B.</b>	decrease	decrease	increase
<b>C.</b>	increase	increase	increase
<b>D.</b>	decrease	decrease	decrease

**Question 12**

Which of the following components of aggregate demand normally fluctuates the most?

- A.** private consumption expenditure (C)
- B.** private investment expenditure (I)
- C.** public current expenditure (G1)
- D.** public capital expenditure (G2)

**Question 13**

Which one of the following may cause the federal government budget outcome to move from a deficit to a surplus?

- A.** There is an increase in the unemployment rate.
- B.** Taxation reform sees the government lower the GST rate.
- C.** There is an acceleration in the rate of economic growth.
- D.** There is an increase in interest rates.

**Question 14**

A government regulation placed a limit on the number of foreign doctors practising in Australia. The removal of this limit would most likely lead to

- A.** an increase in fees charged by doctors as the demand for medical services would increase.
- B.** an increase in fees charged by doctors as the supply of medical services would decrease.
- C.** a decrease in fees charged by doctors as the demand for medical services would decrease.
- D.** a decrease in fees charged by doctors as the supply of medical services would increase.

**Question 15**

Which one of the following policy actions could the federal government implement to reduce aggregate demand pressures?

- A.** a decrease in marginal income tax rates
- B.** an increase in government infrastructure spending
- C.** a decrease in interest rates
- D.** discretionary changes in fiscal/budgetary policy to increase the size of the government budget surplus

**SECTION B – Written responses****Instructions for Section B**

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

**Question 1**

The following table shows Australia's unemployment rate.

At June in each year	Unemployment rate %
June 1994	9.7
June 1995	8.1
June 1996	8.0
June 1997	8.2
June 1998	7.9
June 1999	6.7
June 2000	6.2
June 2001	6.9
June 2002	6.5
June 2003	6.2
June 2004	5.6
June 2005	5.0

Source: Reserve Bank of Australia

- a. Describe the trend in Australia's unemployment rate since June 2001 shown in the table above.

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2 marks

**b.** Explain how **one** demand factor may have influenced the trend in Australia's unemployment rate described in the table on the previous page.

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2 marks

**c.** Define **labour force participation rate**.

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2 marks









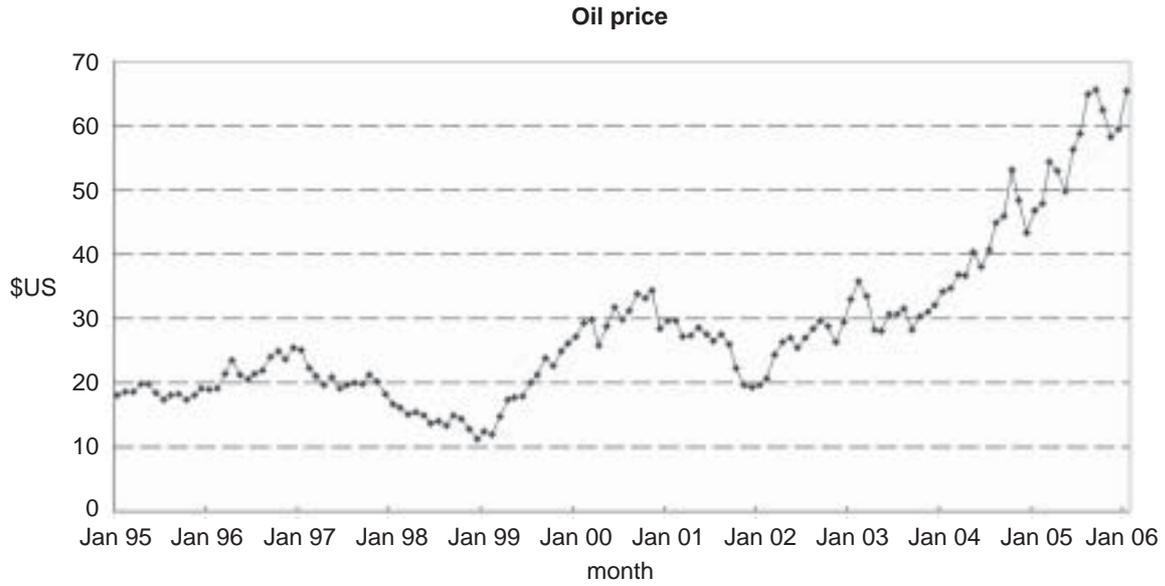








The following graph shows the international crude oil price.



Source: Federal Reserve Bank of St. Louis

c. Describe **two** economic reasons for the increase in the international crude oil price since 2003.

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4 marks







