

**Victorian Certificate of Education  
2016**

SUPERVISOR TO ATTACH PROCESSING LABEL HERE

STUDENT NUMBER           Letter

**ECONOMICS**  
**Written examination**

**Thursday 27 October 2016**

**Reading time: 2.00 pm to 2.15 pm (15 minutes)**

**Writing time: 2.15 pm to 4.15 pm (2 hours)**

**QUESTION AND ANSWER BOOK**

**Structure of book**

<i>Section</i>	<i>Number of questions</i>	<i>Number of questions to be answered</i>	<i>Number of marks</i>
A	15	15	30
B	4	4	60
			Total 90

- 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 paper 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 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**

Which one of the following components of aggregate demand is the most unstable?

- A. private investment expenditure
- B. private consumption expenditure
- C. government investment expenditure
- D. government consumption expenditure

**Question 2**

When resources are used to produce the goods and services that best satisfy society's needs and wants, this is known as

- A. dynamic efficiency.
- B. allocative efficiency.
- C. intertemporal efficiency.
- D. productive or technical efficiency.

**Question 3**

The construction of a tall apartment building that blocks out the light to a nearby public park is an example of what kind of market failure?

- A. market power
- B. a public good
- C. a negative externality
- D. asymmetric information

**Question 4**

Which one of the following terms describes the 'potential output of an economy'?

- A. production
- B. productivity
- C. productive capacity
- D. Gross Domestic Product (GDP)

**Question 5**

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

Time period	CPI
Quarter 1	100
Quarter 2	101
Quarter 3	102
Quarter 4	103

The annualised rate of inflation for Quarter 2 is

- A. 1%
- B. 3%
- C. 4%
- D. 6%

**Question 6**

A recession in Australia in conjunction with a depreciation of the Australian dollar is likely to lead to

- A. an increase in the volume of Australia's imports and a decrease in the volume of exports.
- B. a decrease in the volume of Australia's imports and an increase in the volume of exports.
- C. a decrease in the volume of Australia's imports and a decrease in the volume of exports.
- D. an increase in the volume of Australia's imports and an increase in the volume of exports.

**Question 7**

Which one of the following government policies will **not** lead to a long-term expansion of aggregate supply?

- A. lowering the company taxation rate
- B. increasing skilled migration by 5000 persons per year
- C. extending the solar energy rebate scheme for households
- D. increasing unemployment benefits by an amount equal to the rate of inflation

**Question 8**

The 'transmission mechanism' refers to the way a change in interest rates affects economic activity. The transmission occurs via a number of channels.

The channel that affects decisions by those in the economy with existing variable rate home loans is known as the

- A. asset values or asset prices channel.
- B. exchange rate channel.
- C. cost of credit channel.
- D. cash flow channel.

**Question 9**

Consider the following information related to the labour market of a hypothetical economy.

Year	Population who are of working age (millions)	Employed persons (millions)	Unemployed persons (millions)
1	20	14	2
2	25	17	2

In comparing Year 2 to Year 1, which one of the following statements is true?

- A. Year 2 has a lower participation rate and a lower unemployment rate.
- B. Year 2 has a lower participation rate and a higher unemployment rate.
- C. Year 2 has a higher participation rate and a lower unemployment rate.
- D. Year 2 has a higher participation rate and a higher unemployment rate.

**Question 10**

If a large percentage fall in a product's price causes a small percentage increase in the quantity demanded, then

- A. supply is price elastic.
- B. demand is price elastic.
- C. supply is price inelastic.
- D. demand is price inelastic.

**Question 11**

Consider the following CPI, GDP and unemployment rate data for a hypothetical economy over a two-year period.

Year	CPI (%)	GDP (%)	Unemployment rate (%)
1	2.9	3.5	4.5
2	2.1	2.0	5.1

With reference to the data in the table above, at the end of Year 2, which policy mix response might be recommended?

- A. expansionary budgetary policy and expansionary monetary policy
- B. contractionary budgetary policy and contractionary monetary policy
- C. expansionary budgetary policy and contractionary monetary policy
- D. contractionary budgetary policy and expansionary monetary policy

**Question 12**

When the Reserve Bank of Australia (RBA) sells government securities in the money market

- A. interest rates will decrease.
- B. the supply of money will decrease.
- C. there will be a reduction in unemployment.
- D. consumption of goods and services will increase.

**Question 13**

Assume there is an increase in the childcare subsidy for low-income earners and an increase in the highest marginal income tax rate.

What is the likely effect on the Gini Coefficient and the Lorenz Curve?

- A. The Gini Coefficient will increase and the Lorenz Curve will move closer to the 45-degree line.
- B. The Gini Coefficient will increase and the Lorenz Curve will move further away from the 45-degree line.
- C. The Gini Coefficient will decrease and the Lorenz Curve will move closer to the 45-degree line.
- D. The Gini Coefficient will decrease and the Lorenz Curve will move further away from the 45-degree line.

**Question 14**

If a product became less popular, while at the same time increased costs of production caused the supply of the product to decrease, it can be concluded that, for this product, the

- A. equilibrium price might rise or fall.
- B. equilibrium quantity might rise or fall.
- C. equilibrium price and the equilibrium quantity would rise.
- D. equilibrium price and the equilibrium quantity would fall.

**Question 15**

Australia's unemployment rate decreased from 6.4% in January 2015 to 5.8% in February 2016.

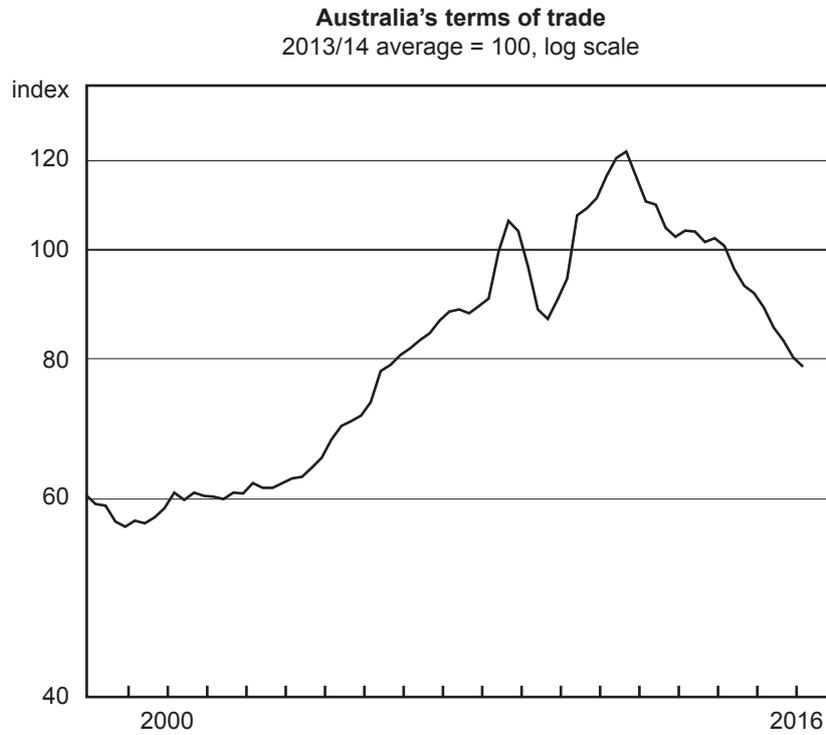
The impact of this change on government tax receipts, government outlays and the size of the budget deficit is likely to be that

- A. tax receipts increase, outlays increase, the budget deficit is reduced.
- B. tax receipts increase, outlays decrease, the budget deficit is reduced.
- C. tax receipts increase, outlays decrease, the budget deficit is increased.
- D. tax receipts decrease, outlays increase, the budget deficit is increased.

**SECTION B – Written responses**

**Instructions for Section B**  
Answer **all** questions in the spaces provided.

**Question 1** (14 marks)



Source: adapted from ABS; RBA Chart Pack, 'The Australian Economy and Financial Markets', August 2016, p. 15

a. Refer to the graph of the terms of trade.

Outline **one** factor that might explain the trend in Australia's terms of trade over the past two years.

2 marks

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**b.** Analyse how an unfavourable movement in the terms of trade is likely to affect Australia's 4 marks

- balance of payments on current account

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- living standards.

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- c. Describe how a depreciation of the Australian dollar might affect the rate of inflation in Australia.

2 marks

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- d. Using **one** example, explain how a microeconomic reform policy might be used to improve Australia’s international competitiveness and external stability.

3 marks

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**Question 2** (14 marks)

**a.** Outline **two** characteristics of a perfectly competitive market.

2 marks

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- c. Outline **one** reason for government intervention in the market in order to stabilise the level of economic activity.

2 marks

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**Question 3** (20 marks)

Over the past two years, the Australian Government has been involved in discussions about how to reform Australia's taxation system.

- a. Outline **one** reason why the Australian Government believes Australia's taxation system needs to be reformed. 2 marks

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- d. Outline **one** factor that may have influenced the operation of the Reserve Bank of Australia's (RBA) monetary policy stance during 2016.

2 marks

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**Question 4** (12 marks)

The Australian Government ‘faces a growing jobs challenge as the number of people trapped in long-term unemployment hits a 16-year high ...’

Source: Matt Wade, ‘Long-term unemployment: Sharp rise taking a toll on Australia’s wellbeing’, *Sydney Morning Herald*, 6 June 2015

- a. Outline **one** economic factor that might explain why long-term unemployment has increased in Australia over recent years.

2 marks

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