



**Victorian Certificate of Education
2008**

SUPERVISOR TO ATTACH PROCESSING LABEL HERE

STUDENT NUMBER

Letter

Figures
Words

ECONOMICS
Written examination

Friday 7 November 2008

Reading time: 3.00 pm to 3.15 pm (15 minutes)

Writing time: 3.15 pm to 5.15 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 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.
- 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

What is meant by the statement that every economic system faces the problem of relative scarcity?

- A. There are insufficient productive resources to satisfy all wants of society.
- B. There are times when some products can be obtained only by paying high prices.
- C. In the early stages of the development of an economic system, shortages are common.
- D. Economic systems have cyclically recurring depressions during which scarcities occur.

Question 2

The peak phase or boom period of the business cycle is usually associated with

- A. constant or steadily rising Gross Domestic Product (GDP).
- B. resources lying idle and excess productive capacity.
- C. rapid expansion of aggregate demand and increasing inflationary pressures.
- D. a rise in the general price level and high levels of cyclical unemployment.

Question 3

Which of the following policy actions to reduce traffic congestion on Melbourne's roads is not a response to market forces?

- A. raising tolls on freeways
- B. increasing petrol taxes
- C. building more train and tram lines
- D. banning cars in Melbourne's central business district (CBD) during peak hour

Question 4

Which of the following would shift the supply curve for housing in Melbourne to the right?

- A. the release of more land for housing development in the outer suburbs
- B. an increase in the cost of construction materials
- C. an increase in the first home owner's grant
- D. an increase in mortgage interest rates

Question 5

Which policy mix is most likely to decrease aggregate demand?

- A. an increase in interest rates and a decrease in government expenditure
- B. an increase in interest rates and an increase in government expenditure
- C. a decrease in interest rates and an increase in government expenditure
- D. a decrease in interest rates and a decrease in government expenditure

Question 6

An increase in the number of retired workers returning to work is most likely to

- A. decrease government revenue.
- B. increase government expenditure.
- C. increase the productivity of the economy.
- D. increase the productive capacity of the economy.

Question 7

The most likely effect of a rise in Australian interest rates is

- A. an appreciation of the Australian dollar and an increase in the volume of exports.
- B. an appreciation of the Australian dollar and a decrease in the volume of exports.
- C. a depreciation of the Australian dollar and an increase in the volume of imports.
- D. a depreciation of the Australian dollar and a decrease in the volume of imports.

Question 8

Consider the following table.

	Full-time adult ordinary time earnings	Rate of inflation
Year	% increase on previous year	% increase in CPI
2003–04	4.9	2.4
2004–05	4.6	2.5
2005–06	4.8	4.0
2006–07	3.6	2.1

In which year was there the lowest increase in real wages?

- A. 2003–04
- B. 2004–05
- C. 2005–06
- D. 2006–07

Question 9

Suppose the government reduces subsidies paid to dairy farmers.

The most likely effect on the price of dairy products would be

- A. an increase as there would be an increase in demand for milk.
- B. an increase as there would be a decrease in the supply of milk.
- C. a decrease as there would be an increase in the supply of milk.
- D. a decrease as there would be a decrease in demand for milk.

Question 10

The economy is experiencing increasing levels of economic activity.

Which of the following might be a reason for unemployment rates remaining around 4%?

- A. The compulsory school leaving age has been raised.
- B. There is an increase in the number of discouraged workers.
- C. There is an increase in the labour force participation rate.
- D. The number of people taking early retirement has increased.

Question 11

Which of the following is not included in the calculation of Australia's Gross Domestic Product (GDP)?

- A. transfer payments paid by the government to poor families
- B. spending on a new computer by a business
- C. spending on a holiday to Queensland by a household
- D. funds paid by the government to build a new school

Question 12

The following statements have been made by producers.

Which is an explanation for a movement along the supply curve?

- A. energy cost rises have forced us to increase prices
- B. the new equipment installed will make us more competitive
- C. an increase in the demand for our product has resulted in a price rise
- D. the rising prices of raw materials have increased our costs

Question 13

If car industry tariffs are cut from 10% to 5%, the most likely short-term effect of this would be

- A. an increase in demand for imported cars and an increase in the current account deficit.
- B. an increase in cars manufactured in Australia and a decrease in the current account deficit.
- C. a decline in productivity in the Australian car industry and a decrease in the rate of economic growth.
- D. an increase in productivity in the Australian car industry and a decrease in the rate of unemployment.

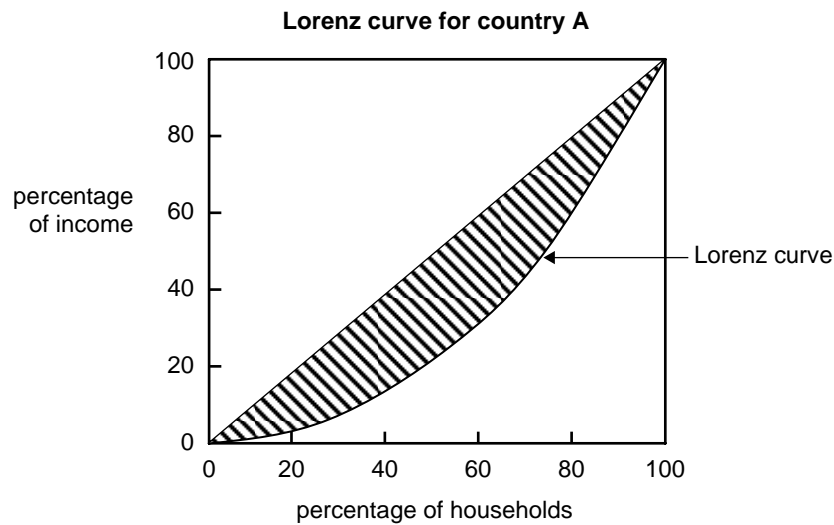
Question 14

Which of the following is **not** a likely aim of microeconomic reform policy in Australia?

- A. increased labour productivity
- B. increased allocative efficiency
- C. increased international competitiveness
- D. increased market share by dominant firms

Question 15

Refer to the following Lorenz curve for country A.



Which of the following statements about the distribution of income for country A is **false**?

- A. The Gini coefficient for country A is between zero and one.
- B. The shaded area on the above chart indicates the extent of the inequality in the distribution of income for country A.
- C. Any change in the distribution of income for country A that caused the Lorenz curve to move to the left would represent a reduction in the inequality of the distribution of income.
- D. A change in the distribution of income which involved higher income households receiving a larger share of income would move the Lorenz curve to the left.

SECTION B – Written responses

<p>Instructions for Section B</p> <p>Answer all questions in pen in the spaces provided.</p>

Question 1

‘The risk of inflation remaining uncomfortably high for some time is considerable . . .’

Reserve Bank of Australia Statement on Monetary Policy, February 2008

- a. Describe **two** influences that are likely to have added to inflationary pressures in the Australian economy during 2008.

4 marks

- b. Discuss **two** problems for the Australian economy 'of inflation remaining uncomfortably high for some time'.

4 marks

Question 2

- a. Explain what is meant by market failure. Discuss why climate change might be considered an example of market failure. Discuss **one** other type of market failure.

6 marks

b. Discuss **one** example of a government policy action that might combat climate change.

4 marks

Question 3

May 2008–09 Budget – Budget outcome table

Budget aggregates

	Actual	Estimates	
	2006–07	2007–08	2008–09
Underlying cash balance (\$b)	17.2	16.8	21.7
Per cent of GDP	1.6	1.5	1.8
Fiscal balance (\$b)	17.2	20.4	23.1
Per cent of GDP	1.6	1.8	1.9

Source: Australian Government Budget
www.budget.gov.au 2008–09

- a. Explain the difference between automatic (cyclical) and discretionary (structural) budgetary stabilisers. Give an example of each.

4 marks

- b.** Select **one** example of a change in budgetary discretionary policy from the 2008–09 federal (Commonwealth) budget. Examine its likely effect on the achievement of equity in personal income distribution.

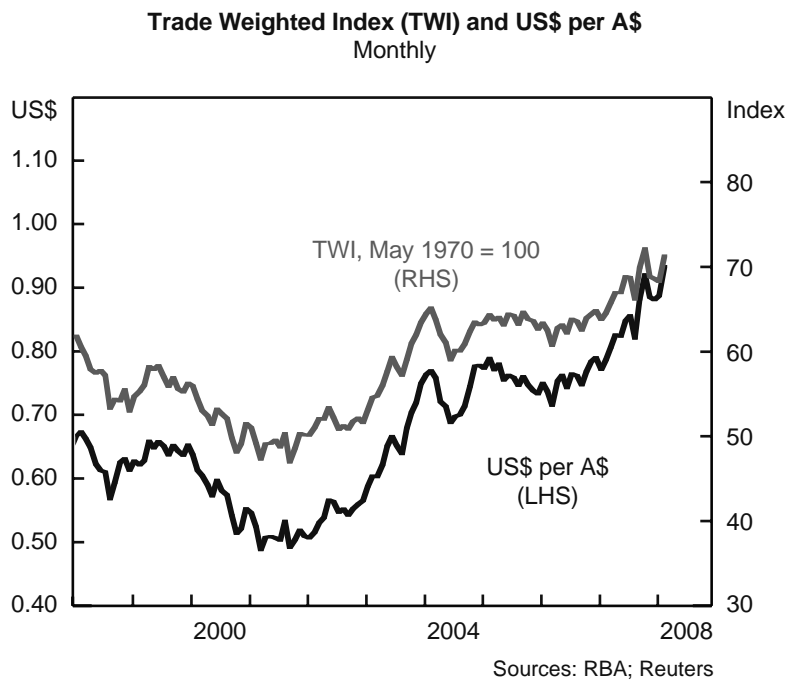
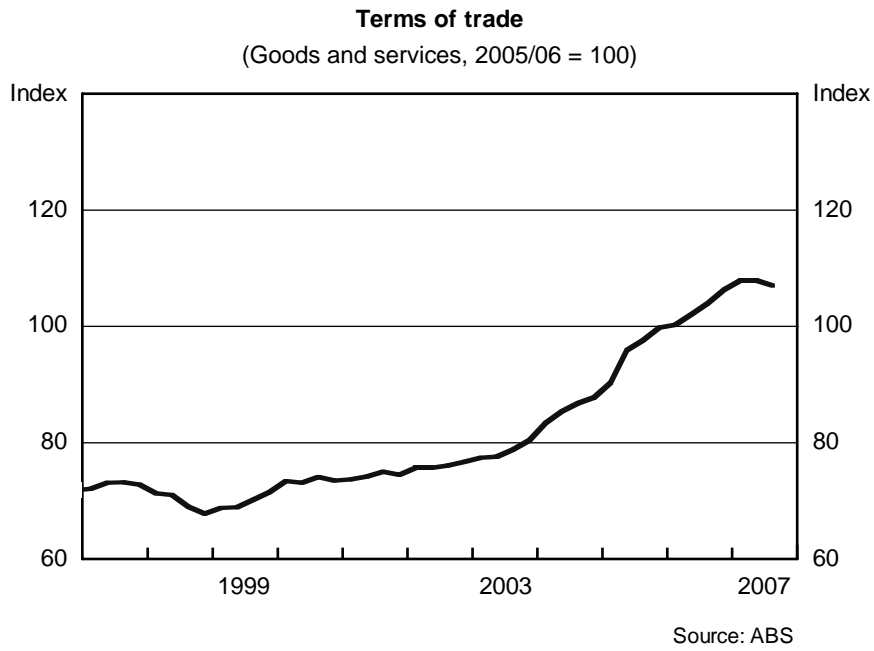
4 marks

- c. Discuss the likely impact of an increase in the size of the federal (Commonwealth) government's budget surplus (as a % of GDP) on the achievement of **one** of the following economic objectives.
 - full employment
 - external stability

4 marks

Question 4

The following charts relate to Australia's terms of trade and exchange rate performance in recent years.



c. Explain **one** effect that this trend in the terms of trade might have had on the achievement of external stability.

4 marks

d. Discuss the likely impact that the trend in the value of the Australian dollar between 2003 and 2008 might have on the

- balance on goods and services on current account
- net income component of the current account.

6 marks

