



**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.

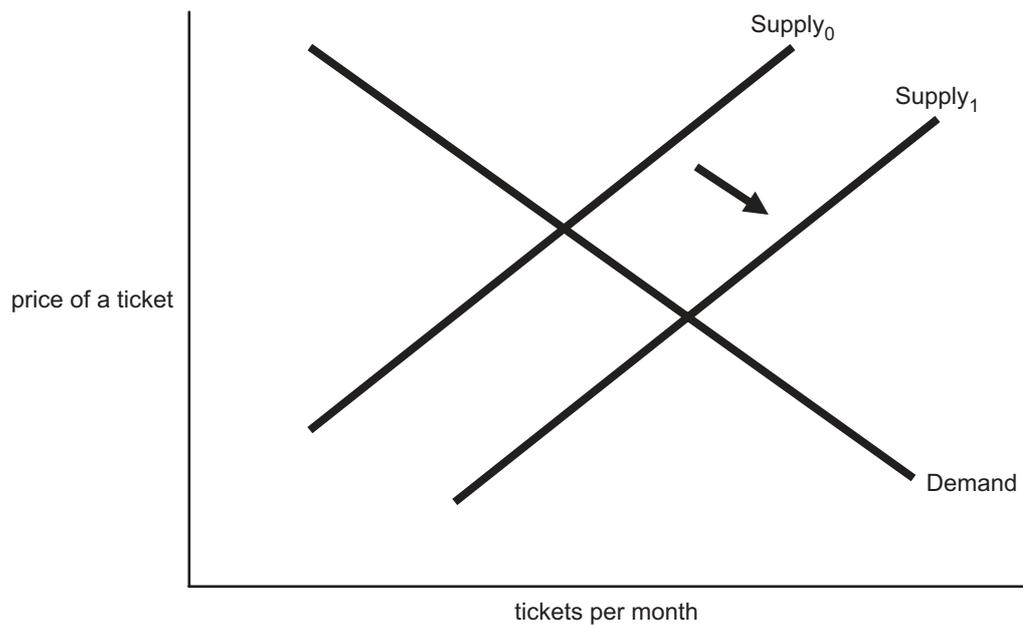
**Question 1**

A firm is said to be a monopoly if it produces a good or service for which

- A. there is no close substitute.
- B. there is no foreign competition.
- C. the government is not a buyer.
- D. there is only one buyer of this product.

**Question 2**

Consider the following demand and supply diagram, for airline tickets from Melbourne to London, showing a shift in the supply curve from Supply<sub>0</sub> to Supply<sub>1</sub>.



This shift in the supply curve could have been caused by

- A. an increase in the demand for airline tickets to London.
- B. a decrease in the price of airline tickets to London.
- C. a decrease in the cost of aviation fuel.
- D. an increase in the price of airline tickets from Melbourne to New York.

**Question 3**

Which one of the following is **not** an example of market failure?

- A. negative externalities resulting from car pollution
- B. private firms being unwilling to supply defence services
- C. the concentration of firms which results in a single supplier dominating the market
- D. a proportion of the workforce earning below average weekly earnings

**Question 4**

Chris can bake either 8 pies or 4 loaves of bread per hour.

For Chris, the opportunity cost of baking an extra pie is

- A.  $\frac{1}{2}$  a loaf of bread.
- B.  $\frac{1}{2}$  a pie.
- C. 2 loaves of bread.
- D. 2 pies.

**Question 5**

Which policy mix is most likely to increase aggregate demand?

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

**Question 6**

Which account, in the Balance of Payments, records Australia's foreign aid?

- A. merchandise trade
- B. transfers
- C. services
- D. incomes

**Question 7**

The table below shows the unemployment rate for an economy over a three-year period.

Year	Unemployment rate
1	6.9
2	6.2
3	5.5

Which one of the following would **not** be a possible factor contributing to the trend in the unemployment rate in the years shown?

- A. a strong global economy
- B. rising consumer confidence
- C. rising participation rates
- D. rising private investment expenditure

**Question 8**

Which one of the following statements is **most** accurate in relation to Australia in the 2004–2005 financial year?

- A. The unemployment rate averaged between 6–7% and the inflation rate averaged between 2–3%.
- B. The rate of growth of real GDP averaged between 5–6% and the rate of growth of average weekly earnings averaged a little over 8%.
- C. The Australian Government budget deficit averaged \$3bn and the cash interest rate was in the range of 7–8%.
- D. The inflation rate averaged 2–3% and the rate of growth of real GDP averaged between 1.0–3.0%.

**Question 9**

Which one of the following is **not** classified as a risk to the achievement of price stability in the medium term?

- A. rising oil prices
- B. rising productivity levels
- C. rising levels of consumer confidence
- D. rising employment costs

**Question 10**

Other things being equal, what will the likely impact be on the Australian economy of an increase in Australian interest rates?

Economic activity will

- A. accelerate and the Australian dollar appreciate.
- B. accelerate and the Australian dollar depreciate.
- C. slow and the Australian dollar appreciate.
- D. slow and the Australian dollar depreciate.

**Question 11**

Monetary policy in Australia is primarily targeted at the economic objective of

- A. economic growth.
- B. external stability.
- C. full employment.
- D. price stability.

**Question 12**

An appreciation in the Australian dollar against the world's major currencies will most likely

- A. assist Australian exporters to sell their products in overseas markets.
- B. cause the Reserve Bank of Australia to raise interest rates.
- C. lead to job losses in the Australian tourism industry.
- D. produce an increase in Australia's rate of inflation.

**Question 13**

An increase in the size of the budget surplus and a tightening of monetary policy is likely to have which of the following effects on the economy?

- A. increase the rate of unemployment and the rate of inflation
- B. increase the rate of unemployment and decrease the rate of inflation
- C. decrease the rate of unemployment and increase the rate of inflation
- D. decrease the rate of unemployment and the rate of inflation

**Question 14**

The market for pizza has the following demand and supply schedules.

Price \$	Quantity demanded	Quantity supplied
4	135	26
5	104	53
6	81	81
7	68	98
8	53	111
9	39	121

Which of the following statements about the pizza market is **incorrect**?

- A. The equilibrium price for pizzas is \$6.00.
- B. At a price of \$8.00 there is an excess supply of pizzas.
- C. At a price of \$5.00 there is an excess demand for pizzas.
- D. The equilibrium quantity traded would be 53 pizzas.

**Question 15**

The government's budget outcome, during a time of recession, is most likely to be in

- A. deficit, since tax payments tend to fall and government outlays tend to rise when economic activity is weak.
- B. surplus, since tax payments tend to fall and government outlays tend to rise when economic activity is weak.
- C. deficit, since tax payments tend to rise and government outlays tend to fall when economic activity is weak.
- D. surplus, since tax payments tend to rise and government outlays tend to fall when economic activity is weak.

**SECTION B – Written responses**

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

**Question 1**

‘If Australia is to grow strongly, the capacity constraints we are now up against in terms of exports and in the labour market need to be alleviated by further policies to increase productive capacity.’

- a. i. Explain the meaning of the term productive capacity.

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- ii. Outline how any **one** of the following factors may affect productive capacity.
- an increase in the labour force participation rate
  - a slowdown in the rate of technological change
  - an increase in government spending on infrastructure

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2 + 2 = 4 marks



- c. Select any **two** examples of microeconomic reform policy and discuss how these policies have been, or are being, implemented to increase economic growth.

Example 1 \_\_\_\_\_

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Example 2 \_\_\_\_\_

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6 marks

‘A necessary prerequisite for the achievement of strong and sustainable rates of economic growth is the provision of increased productive capacity. However, growth will not occur unless the economy also generates an increasing level of aggregate demand.’

- d.** Explain how **one** of the following factors would be likely to increase aggregate demand and economic growth **and** explain how **one** other factor would be likely to slow aggregate demand and economic growth.
- an increase in the size of the Australian Government’s budget surplus
  - a strong economic recovery overseas
  - an increase in Australian interest rates
  - a reduction in the company tax rate

Factor to increase aggregate demand and economic growth \_\_\_\_\_

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Factor to slow aggregate demand and economic growth \_\_\_\_\_

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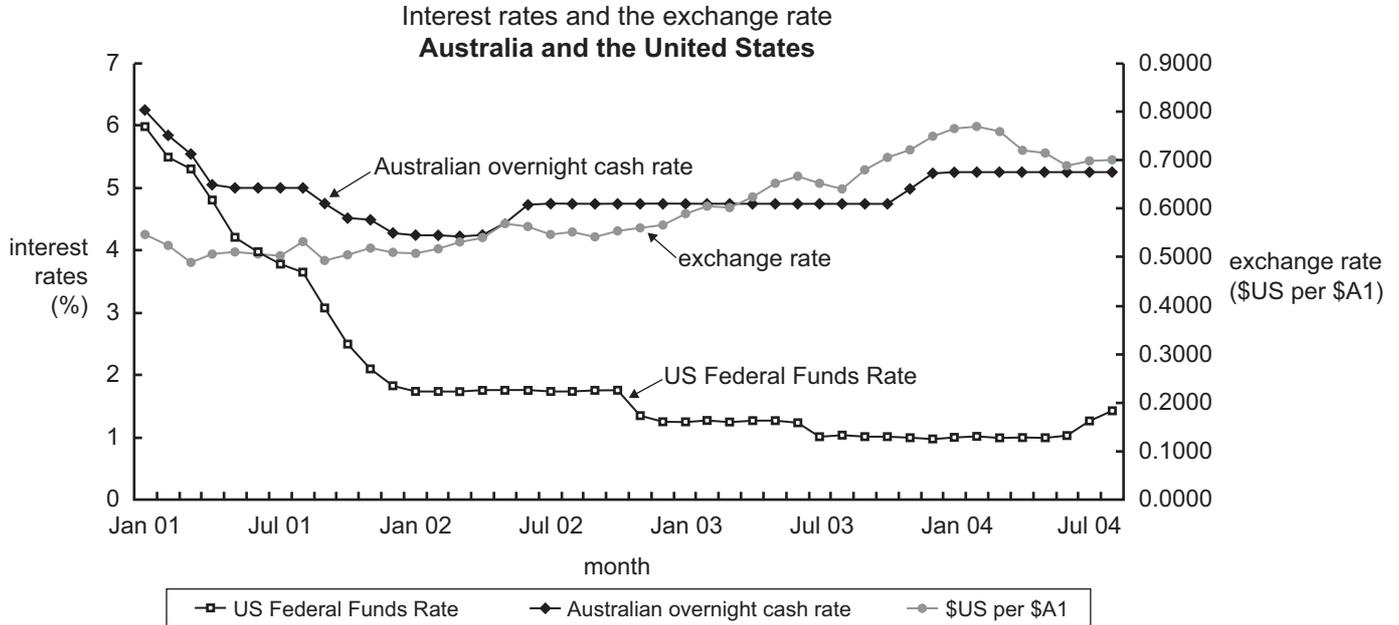
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6 marks  
Total 20 marks

**Question 2**

The following graph shows two interest rates, one for Australia, the other for the United States. The Australian interest rate is the interest rate in the overnight cash market. This is the interest rate used to set monetary policy in Australia. The United States interest rate is the Federal Funds Rate. This is the interest rate used to set monetary policy in the United States. Also shown is the exchange rate, defined as the amount of United States currency required to purchase one Australian dollar.



Source: Reserve Bank of Australia Statistical Bulletin, various issues.

- a. Explain **two** circumstances in which the Reserve Bank of Australia is likely to increase its target for the interest rate in the overnight cash market.

Circumstance 1 \_\_\_\_\_

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Circumstance 2 \_\_\_\_\_  
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4 marks

- b. i.** Based on the information shown in the graph, describe and account for the trend in the exchange rate for the period since July 2002.

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4 marks

ii. Explain how changes in the exchange rate since July 2002 may have affected each of the following.

- the Australian balance of payments on the current account \_\_\_\_\_

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- the Australian inflation rate \_\_\_\_\_

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6 marks



**Question 3**

a. Explain the meaning of the economic objective of equity in personal income distribution.

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2 marks









