

**Victorian Certificate of Education  
2015**

SUPERVISOR TO ATTACH PROCESSING LABEL HERE

STUDENT NUMBER           Letter

**ECONOMICS**  
**Written examination**

**Thursday 29 October 2015**

**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**

An increase in the demand for aged-care facilities is most likely to occur when there is

- A. an increase in average life expectancy.
- B. an increase in the wages paid to staff in aged-care facilities.
- C. an increase in the cost of providing aged-care facilities and services.
- D. a decrease in government subsidies for aged-care facilities and services.

**Question 2**

A less favourable movement in the terms of trade means that

- A. export prices and import prices have fallen.
- B. export prices and import prices have risen.
- C. export prices have risen relative to import prices.
- D. import prices have risen relative to export prices.

**Question 3**

The effect on the market for product A of a rise in the price of a substitute product B will be to

- A. shift the demand curve left and decrease the equilibrium price of product A.
- B. shift the demand curve right and increase the equilibrium price of product A.
- C. shift the supply curve left and increase the equilibrium price of product A.
- D. shift the supply curve right and decrease the equilibrium price of product A.

**Question 4**

Which one of the following measures is **not** considered an indicator when assessing whether Australia's economic goal of external stability has been achieved?

- A. the trend movement in the current account deficit (CAD)/Gross Domestic Product (GDP) ratio
- B. the trend movement in the net foreign debt (NFD)/GDP ratio
- C. the trend movement in the trade-weighted index
- D. the trend movement in the terms of trade

**Question 5**

The opportunity cost of diverting increased federal budget outlays to the funding of tertiary institutions from one fiscal year to the next would be measured by

- A. the difference, in dollar terms, in funding tertiary institutions from one year to the next.
- B. the satisfaction forgone by not allocating the additional federal budget outlays to the next best alternative use.
- C. the difference in quality of educational outcomes achieved by tertiary institutions from one year to the next.
- D. the total financial cost of funding tertiary institutions compared to the financial benefits achieved by the national economy of a more highly educated labour force.

**Question 6**

What is the most likely effect of a decrease in the tariff on an imported product?

- A. a loss of jobs for overseas suppliers
- B. a fall in the price of the domestic product
- C. a rise in the price of the domestic product
- D. an increase in employment in the domestic sector

**Question 7**

Which one of the following would be an example of a structurally unemployed person?

- A. a ski instructor who is looking for alternative employment during summer
- B. an accountant who has left their job to travel overseas to gain more experience in their profession
- C. a cash register operator at a supermarket who has been replaced by self-service check-out machines
- D. a construction worker who has not worked recently due to an economic downturn in the building and construction industry

**Question 8**

An expansion in the quantity supplied would be shown graphically as a

- A. movement up the supply curve.
- B. shift to the left of the supply curve.
- C. shift to the right of the supply curve.
- D. movement down the supply curve.

**Question 9**

The average material living standards of Australian households may decline if

- A. the average annual household disposable income rises at a faster rate than Consumer Price Index (CPI) inflation.
- B. CPI inflation is increasing at a slower rate in Australia than the rate experienced by our trading partners.
- C. the rate of population growth is greater than the rate of increase in Real GDP over a sustained period of time.
- D. negative externalities, such as pollution and urban congestion, are consequences of population growth in Australian cities.

**Question 10**

Consider the following data for a hypothetical economy with similar macroeconomic goals to those of Australia.

	<b>Annual percentage change in Real GDP</b>	<b>Annual percentage change in GNE</b>	<b>Annual percentage change in CPI inflation</b>	<b>Official cash rate of interest (%)</b>
<b>Year 1</b>	2.75	3.00	2.3	4.50
<b>Year 2</b>	3.25	5.00	3.0	5.00
<b>Year 3</b>	4.00	6.75	3.7	6.25

Based on the trend movement in the economic indicators shown above, it is most likely that

- A.** the increase in official interest rates is a significant cause of the escalation in CPI inflation and, with higher national prices, it is logical that Gross National Expenditure (GNE) will be increasing more rapidly.
- B.** national incomes are growing at a relatively slow pace over the three-year period, contributing to the rate of change of GNE, while tightening of monetary policy has been required in an attempt to restore the economy to a state of non-inflationary macroeconomic expansion.
- C.** steady growth of Real GDP has been achieved without creating any difficulties for other economic goals or any challenges for macroeconomic policy management.
- D.** the rate of increase of GNE over the three-year period, combined with the trend movement in CPI inflation, implies that increased import leakage will be occurring and that macroeconomic policy tightening is justified.

**Question 11**

If the market price of bananas suddenly increases due to poor weather conditions in Queensland, the impact on the market for banana cakes is most likely to be

- A.** reduced profitability in the production of banana cakes due to lower production costs and a consequent decrease in the supply of banana cakes relative to constant demand in the market, leading to an increase in the market price of banana cakes.
- B.** improved profitability in the production of banana cakes following the expansion of demand, in response to the higher prices that can be charged for banana cakes.
- C.** reduced profitability in the production of banana cakes as the relative scarcity of a key factor of production increases the costs of production and leads to a decrease in the supply of banana cakes in the market.
- D.** improved profitability in the production of banana cakes as the manufacturers can rapidly increase the market price to cover increased costs and maintain output at a constant level.

**Question 12**

Consider the following data that relates to the Australian economy.

	<b>Unemployment rate (%) per annum</b>	<b>Real GDP (%) per annum</b>
<b>Year 1</b>	5	3
<b>Year 2</b>	6	1.75

Based on this data, it is most likely that

- A. the Australian economy will have fewer idle resources at the end of Year 2 compared to the end of Year 1.
- B. the Reserve Bank of Australia (RBA) may be more likely to raise interest rates in Year 2 as a pre-emptive action against increased CPI inflationary pressures.
- C. consumer confidence will be falling as growth in average household disposable income may be slowing.
- D. aggregate injections of spending within the macroeconomy will have been stronger than aggregate leakages during Year 2.

**Question 13**

The operator of a tourist resort on Australia's Gold Coast was quoted as saying that 'a weaker Australian dollar will be good for business'.

This is most likely because a weaker dollar

- A. means that Australian residents are less able to afford holidays in other countries, while residents in other countries are more likely to take their holidays in Australia.
- B. leads to a lower rate of inflation in Australia and this will encourage Australian residents to take holidays in Australia.
- C. increases the value of Australians' income and this will increase the demand for tourism.
- D. causes lower interest rates in Australia and this will stimulate spending by Australian residents on tourism.

**Question 14**

Each of the following consists of a change in economic policy and an economic outcome.

In which case is the change in policy most likely to produce the outcome in the short term?

- A. increased interest rates and employment growth
- B. increased rates of personal income tax and a reduced CAD
- C. increased government spending and reduced demand inflation
- D. decreased government spending and a lower rate of unemployment

**Question 15**

The distribution of income is likely to become more equitable in the Australian economy if the government were to

- A. move from a progressive to a proportional income tax system.
- B. increase the goods and services tax (GST) from 10% to 15%.
- C. increase spending on education and health.
- D. remove the capital gains tax.



- b. Describe how an increase in aggregate supply might contribute to an increase in the rate of economic growth.

2 marks

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- c. Explain how one domestic demand-side factor and one global demand-side factor might have influenced aggregate demand in Australia in 2015.

4 marks

Domestic demand-side factor \_\_\_\_\_

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Global demand-side factor \_\_\_\_\_

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**Question 2** (18 marks)

- a. Explain two differences between a perfectly competitive market structure and an oligopolistic market structure.

4 marks

Difference 1 \_\_\_\_\_

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Difference 2 \_\_\_\_\_

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b. Explain the likely impact of a monopoly market structure on **both** prices and living standards. 4 marks

Prices \_\_\_\_\_

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Living standards \_\_\_\_\_

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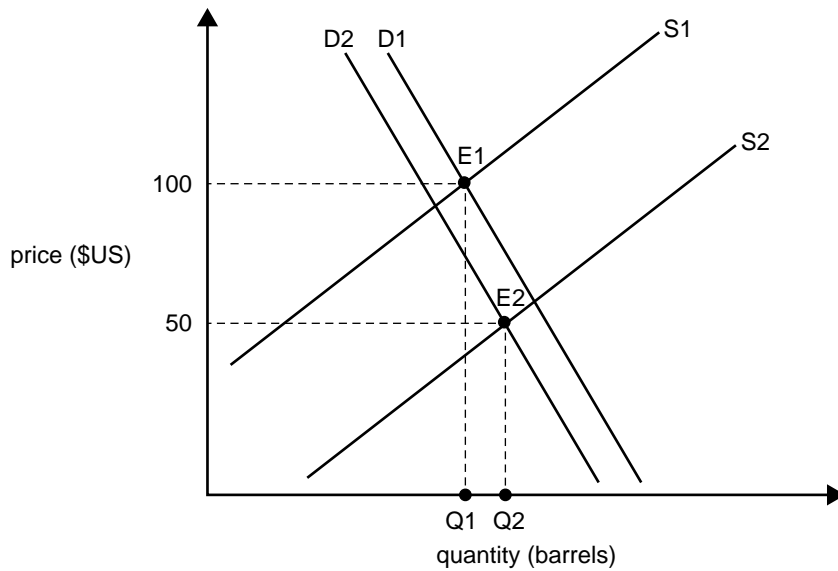


**CONTINUES OVER PAGE**

Oil prices have fallen significantly over the past six months ... Petrol prices have fallen by around 30 per cent since July 2014, which suggests that most of the price decline has been passed through to final prices (given that oil accounts for 50 per cent of the final price of fuel).

Source: RBA, *Statement on Monetary Policy*, February 2015, pp. 46 and 47

**Global demand and supply – crude oil per barrel**



- d. i. Explain the movement in the global equilibrium market price per barrel for crude oil as shown in the demand and supply graph above.

2 marks

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ii. Outline the significance of the price elasticity of demand for petrol upon household budgets, given the trend movement in petrol prices, as indicated in the extract on page 14.

2 marks

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iii. Describe **one** reason why the Australian Government intervenes in the market for petrol paid by consumers and provide **one** example of how it intervenes.

2 marks

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**Question 3** (8 marks)

On 3 February 2015, the Governor of the Reserve Bank of Australia (RBA) announced a change in monetary policy: ‘... the Board decided to lower the cash rate by 25 basis points to 2.25 per cent ...’

Source: RBA, ‘Statement by Glenn Stevens, Governor: Monetary Policy Decision’, media release, 3 February 2015

- a. Outline **one** economic factor that might explain why the RBA decided to lower the cash rate in February 2015.

2 marks

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- b. Analyse, with reference to the cash flow transmission mechanism/channel and the exchange rate transmission mechanism/channel, how cuts in official interest rates might operate to assist in the achievement of the goal of full employment.

4 marks

Cash flow transmission mechanism/channel \_\_\_\_\_

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Exchange rate transmission mechanism/channel \_\_\_\_\_

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- c. Outline **one** possible negative impact on the economy associated with lowering the cash interest rate.

2 marks

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**Question 4** (14 marks)**Budget aggregates 2014–2015 to 2016–2017**

	<b>Estimates</b>		
	2014–2015	2015–2016	2016–2017
underlying cash balance (\$b)(a)	–41.1	–35.1	–25.8
per cent of GDP	–2.6	–2.1	–1.5
fiscal balance (\$b)	–39.4	–33.0	–23.4
per cent of GDP	–2.5	–2.0	–1.3

(a) excludes net Future Fund earnings

Source: The Commonwealth of Australia 2015

- a. Comparing the estimates in 2014–2015 with 2015–2016, describe the change in the stance of budgetary policy between the two years.

2 marks

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On 13 May 2014, the Treasurer announced that ‘unless we fix this budget together, we will leave the next generation with a legacy of debt’.

Source: Australia, House of Representatives 2014, *Hansard*, Budget speech, Joe Hockey (Member for North Sydney, Treasurer), Appropriation Bill (No. 1) 2014–2015, 13 May 2014, p. 3596

- c. i. Describe the link between government budget deficits and the government/national debt. 2 marks

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- ii. Explain **one** reason why leaving ‘a legacy of debt’ may affect living standards. 2 marks

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