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

<table>
<thead>
<tr>
<th>Structure of book</th>
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<tbody>
<tr>
<td>Section</td>
</tr>
<tr>
<td>A</td>
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<tr>
<td>B</td>
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<td>Total</td>
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- 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
- 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.

<table>
<thead>
<tr>
<th>Time period</th>
<th>CPI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quarter 1</td>
<td>100</td>
</tr>
<tr>
<td>Quarter 2</td>
<td>101</td>
</tr>
<tr>
<td>Quarter 3</td>
<td>102</td>
</tr>
<tr>
<td>Quarter 4</td>
<td>103</td>
</tr>
</tbody>
</table>

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.

<table>
<thead>
<tr>
<th>Year</th>
<th>Population who are of working age (millions)</th>
<th>Employed persons (millions)</th>
<th>Unemployed persons (millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>20</td>
<td>14</td>
<td>2</td>
</tr>
<tr>
<td>2</td>
<td>25</td>
<td>17</td>
<td>2</td>
</tr>
</tbody>
</table>

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.

<table>
<thead>
<tr>
<th>Year</th>
<th>CPI (%)</th>
<th>GDP (%)</th>
<th>Unemployment rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2.9</td>
<td>3.5</td>
<td>4.5</td>
</tr>
<tr>
<td>2</td>
<td>2.1</td>
<td>2.0</td>
<td>5.1</td>
</tr>
</tbody>
</table>

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.
Utility 1 (14 marks)

Australia's terms of trade
2013/14 average = 100, log scale

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
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

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

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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.  

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e. Using one example, explain how budgetary policy might be used to influence 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.  

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b. Explain why a perfectly competitive market is more likely to achieve an efficient allocation of resources than an oligopolistic market. 4 marks
c. Outline one reason for government intervention in the market in order to stabilise the level of economic activity. 2 marks
d. Referring to a specific example of a market in Australia (such as an agricultural market, a commodity market, a retail market), describe one economic factor influencing the operation of this market and discuss the extent to which this market operates freely in Australia. 6 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
b. Explain how a change in both personal income tax policy and company tax policy might influence aggregate supply and therefore the rate of economic growth. 6 marks
c. Identify one example of a discretionary budgetary policy announced in the 2016–2017 Budget, and examine how this policy might influence living standards and long-term economic prosperity.

4 marks
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
e. Describe how budgetary and monetary policies have operated in the policy mix in 2016 to influence aggregate demand and the rate of economic growth. 6 marks
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 …’


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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b. Describe the likely effect of being long-term unemployed on both equity of income distribution and living standards. 4 marks

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c. Using **one** example, explain how budgetary policy might be used to increase the labour force participation rate and, using **another** example, explain how budgetary policy might be used to lower the rate of long-term unemployment.  

6 marks
An answer book is available from the supervisor if you need extra paper to complete your answer. Please ensure you write your student number in the space provided on the front cover of the answer book. At the end of the examination, place the answer book inside the front cover of this question and answer book.