

**Victorian Certificate of Education
2018**

SUPERVISOR TO ATTACH PROCESSING LABEL HERE

STUDENT NUMBER Letter

ECONOMICS
Written examination

Thursday 1 November 2018

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	15
B	4	4	65
			Total 80

- 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 1; 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

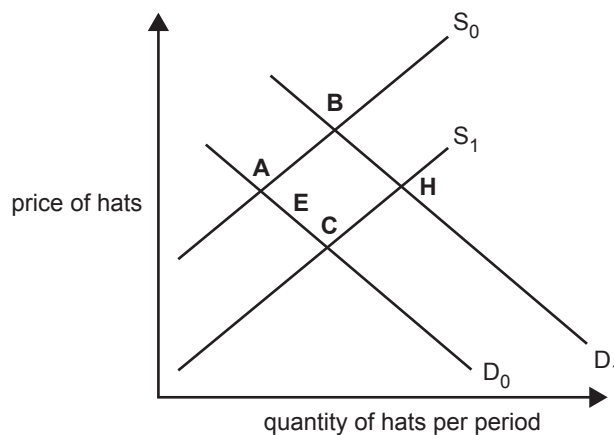
The type of unemployment caused by technological change is known as

- A. cyclical unemployment.
- B. frictional unemployment.
- C. structural unemployment.
- D. hard-core unemployment.

Question 2

Expansionary monetary policy is most likely to cause

- A. a decrease in welfare payments.
- B. an appreciation of the Australian dollar.
- C. a reduction in the rate of economic growth.
- D. an increase in the size of the budget deficit.

Question 3

A health warning stating that wearing a hat reduces skin cancer would be likely to change the equilibrium in the hat market, shown in the diagram above, from point A to point

- A. B.
- B. C.
- C. H.
- D. E.

Question 4

Of the following policy initiatives, which one is least likely to increase aggregate supply in the economy?

- A. increased government spending on infrastructure
- B. increased government spending on education and training
- C. increased government outlays allocated to payment of unemployment benefits
- D. a reduction in company tax rates

Question 5

The payment of dividends to overseas shareholders will appear in the balance of payments as a

- A. credit in the capital and financial account.
- B. debit in the capital and financial account.
- C. credit in the balance of payments on current account.
- D. debit in the balance of payments on current account.

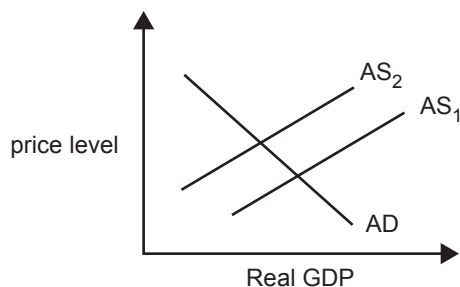
Question 6

An increase in productivity is likely to

- A. worsen Australia's international competitiveness and increase inflation.
- B. worsen Australia's international competitiveness and decrease inflation.
- C. improve Australia's international competitiveness and increase inflation.
- D. improve Australia's international competitiveness and decrease inflation.

Question 7

Refer to the following aggregate demand (AD) and aggregate supply (AS) diagram.



Which one of the following is likely to cause a shift in the aggregate supply curve from AS_1 to AS_2 ?

- A. a decrease in interest rates
- B. an increase in production costs
- C. an increase in government spending
- D. an increase in profitability of businesses

Question 8

Consider the following data for an economy over a two-year period. The prices given reflect the average for the relevant year.

	Year 1	Year 2
Index of export prices	100	96
Index of import prices	100	120

What conclusion can be drawn from the data above?

- A. Between Year 1 and Year 2 the terms of trade improved.
- B. Between Year 1 and Year 2 the terms of trade deteriorated.
- C. Between Year 1 and Year 2 the terms of trade remained unchanged.
- D. It cannot be determined if there has been a change between Year 1 and Year 2.

Question 9

Which one of the following would reduce the size of the Australian Government's budget deficit?

- A. company tax cuts
- B. personal income tax cuts
- C. increasing the rate of the goods and services tax (GST)
- D. increasing the tax-free threshold for personal income tax

Question 10

The degree of price elasticity of demand is important to producers because it reveals how

- A. responsive quantity demanded is to a change in price.
- B. much of the product will be supplied at different prices.
- C. responsive demand for a product is to advertising or promotional campaigns.
- D. responsive quantity demanded is to a change in the level of consumer income.

Question 11

Which one of the following is not a feature of a perfectly competitive market?

- A. Firms have ease of entry into and exit from the market.
- B. Products sold in the market are homogenous.
- C. Consumer sovereignty exists.
- D. Resources are not mobile.

Question 12

When the economy is experiencing low rates of inflation and low rates of economic and employment growth, the Reserve Bank of Australia will be likely to

- A. sell government securities in order to increase the cash rate.
- B. sell government securities in order to decrease the cash rate.
- C. purchase government securities in order to increase the cash rate.
- D. purchase government securities in order to decrease the cash rate.

Question 13

Imagine the Australian Government's budget is in surplus.

If the rate of economic growth were to slow, this may ultimately result in a

- A. smaller surplus budget, as receipts rise and outlays fall.
- B. budget deficit, as receipts rise and outlays fall.
- C. larger surplus budget, as receipts rise and outlays fall.
- D. smaller surplus budget, as receipts fall and outlays rise.

Question 14

Which of the following would be the most likely impact of an increase in inflation in the United States (US)?

- A. an increase in US interest rates and a depreciation of the Australian dollar
- B. an increase in US interest rates and an appreciation of the Australian dollar
- C. a decrease in US interest rates and a depreciation of the Australian dollar
- D. a decrease in US interest rates and an appreciation of the Australian dollar

Question 15

The following table indicates the quarterly Consumer Price Index (CPI) outcomes for a hypothetical economy.

	CPI
June 2017	110
Sept. 2017	115
Dec. 2017	118
Mar. 2018	120
June 2018	121

With reference to the data in the table, the annual rate of inflation for the year ended June 2018 is

- A. 5%
- B. 8%
- C. 10%
- D. 11%

- b. Explain how a decrease in the price of a complement can affect the demand for a good.
Construct fully labelled demand and supply curves to illustrate your explanation.

4 marks



- c. Describe the difference between a movement along the supply curve and a shift of the supply curve. Construct fully labelled demand and supply curves to illustrate your description. 4 marks



Question 2 (14 marks)

- a.** During 2017 and 2018 Australia’s annual wages growth remained weak.

Describe how wages growth remaining at low levels might have influenced the stance and focus of monetary policy during 2017 and 2018.

3 marks

- b.** Monetary policy influences aggregate demand and the wider economy via transmission mechanisms.

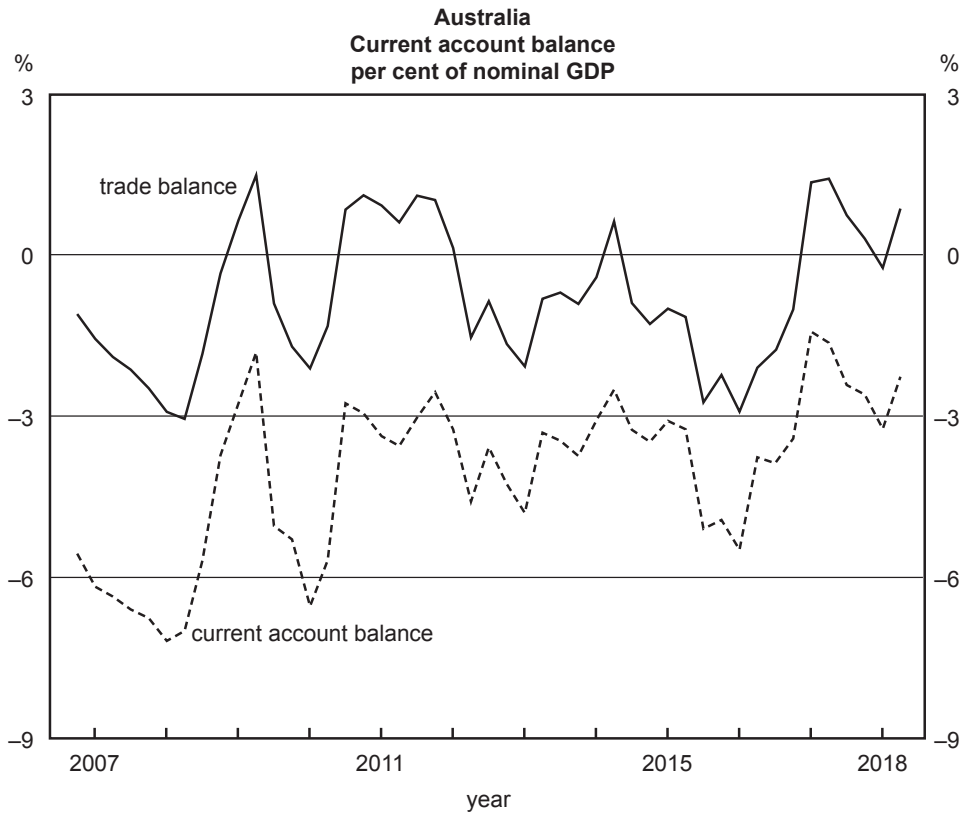
Imagine the Reserve Bank of Australia raised the cash rate from 1.50% to 2.00%. Explain how **two** monetary policy transmission mechanisms might have operated to affect the level of aggregate demand and the rate of economic growth under those conditions.

8 marks

c. Outline **one** weakness associated with using monetary policy to increase aggregate demand and the rate of economic growth.

3 marks

Question 3 (14 marks)



Source: adapted from ABS; RBA Chart Pack, 'The Australian Economy and Financial Markets', August 2018, p. 17

- a. Referring to the graph above, outline **one** factor that might explain the trend in Australia's current account balance during 2017 and 2018.

3 marks

b. Discuss **one** likely effect of trade liberalisation on Australia’s international competitiveness and living standards.

4 marks

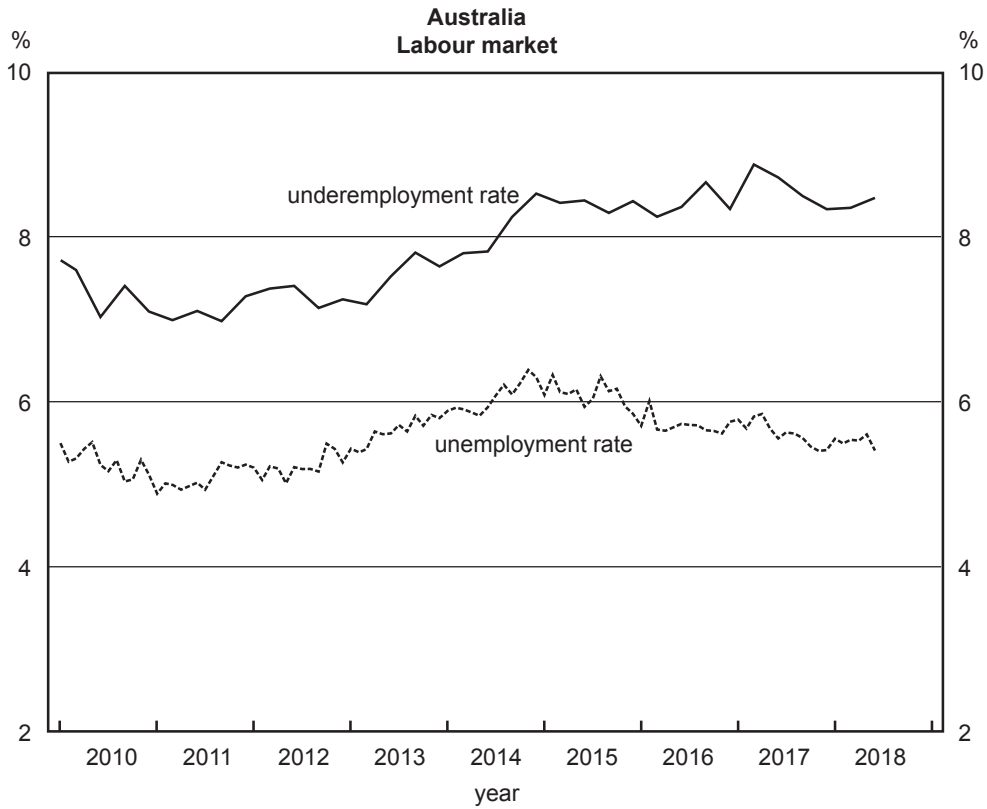
c. Explain **one** likely effect of decreasing the annual immigration intake from 200 000 to 100 000 on the labour market and aggregate supply.

4 marks

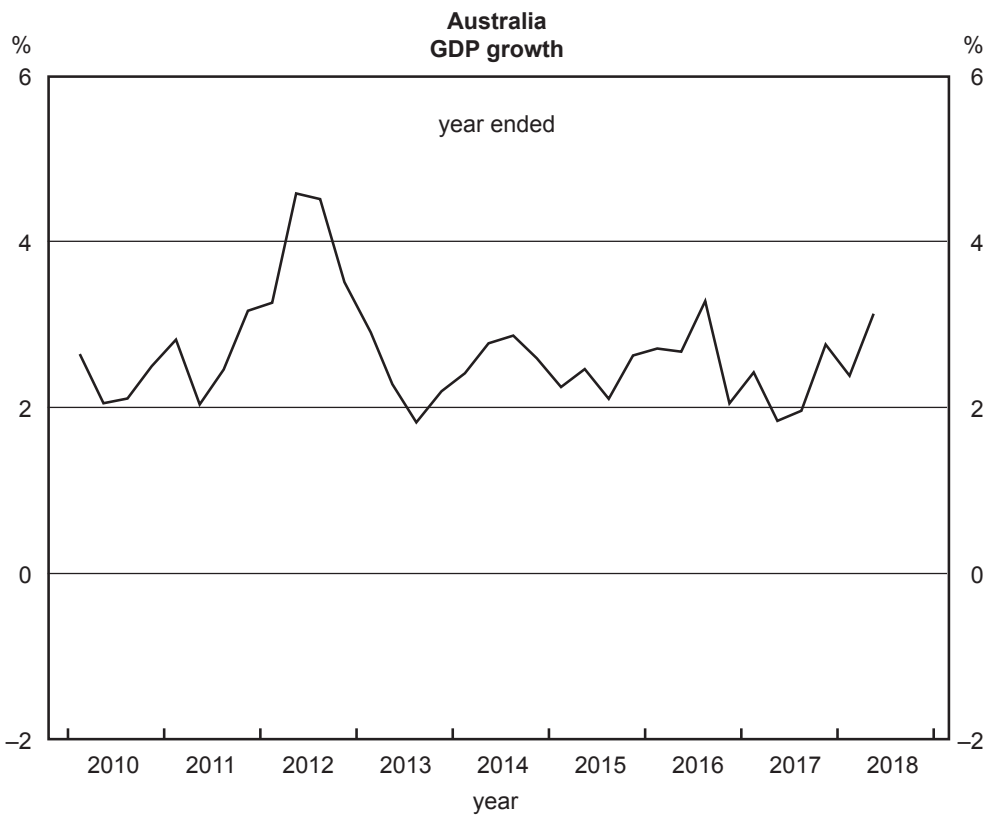
- d.** Outline **one** strength of using immigration policy to achieve the goal of strong and sustainable economic growth.

3 marks

Question 4 (20 marks)



Source: adapted from ABS; RBA Chart Pack, 'The Australian Economy and Financial Markets', August 2018, p. 12



Source: adapted from ABS; RBA Chart Pack, 'The Australian Economy and Financial Markets', August 2018, p. 4

b. The Australian Government has run a number of budget deficits in recent years.

Outline two options available to the government when deciding how to finance a budget deficit.

4 marks

Option 1 _____

Option 2 _____
