ECONOMICS
Written examination

Thursday 14 November 2019

Reading time: 11.45 am to 12.00 noon (15 minutes)
Writing time: 12.00 noon to 2.00 pm (2 hours)

QUESTION AND ANSWER BOOK

Structure of book

<table>
<thead>
<tr>
<th>Section</th>
<th>Number of questions</th>
<th>Number of questions to be answered</th>
<th>Number of marks</th>
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<tbody>
<tr>
<td>A</td>
<td>15</td>
<td>15</td>
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<td>B</td>
<td>4</td>
<td>4</td>
<td>65</td>
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<td>Total 80</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
• 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.

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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 international competitiveness of a nation would improve if
A. its currency appreciated.
B. labour productivity increased.
C. real unit labour costs (RULC) increased.
D. its rate of inflation increased relative to that of its trading partners.

Question 2
Daphne can make either three dresses or nine shirts per hour. For Daphne, the opportunity cost of making an extra dress is
A. one-third of a shirt.
B. one-third of a dress.
C. three shirts.
D. nine dresses.

Question 3
One weakness of budgetary policy compared with monetary policy is that budgetary policy
A. may be subject to political constraints.
B. can target certain parts of the economy to give assistance.
C. may be counteracted by the operation of automatic stabilisers.
D. tends to be relatively ineffective in a recession due to low levels of consumer confidence.

Question 4
An increase in the labour force participation rate is most likely to
A. increase productivity.
B. increase productive capacity.
C. decrease government revenue.
D. increase government expenses.
Question 5
Which one of the following budgetary policy initiatives is least likely to increase aggregate supply in the economy?
A. an increase in the skilled migration program
B. increased government expenditure on education
C. the construction of a new freeway in Melbourne
D. a 10% increase in the Newstart Allowance (unemployment benefit) provided by the Australian Government

Question 6
A maximum price set below the equilibrium price will cause greater shortages if
A. both demand and supply are price inelastic.
B. both demand and supply are price elastic.
C. demand is price inelastic and supply is price elastic.
D. demand is price elastic and supply is price inelastic.

Question 7
As the world economy slows, the Australian Government’s budget outcome may
A. deteriorate as demand for Australian exports decreases.
B. improve as employment in Australia increases.
C. deteriorate as domestic output increases.
D. improve as company profits increase.

Question 8
Which one of the following is a supply-side solution to electricity shortages?
A. requesting industries to reduce their production during heatwaves
B. electricity companies charging consumers higher prices during heatwaves
C. rewarding customers with cash bonuses for limiting their electricity use during peak times
D. giving electricity companies government subsidies to invest in increased production

Question 9
If a severe drought affected this year’s wheat harvest, what would be the effect on the equilibrium price and equilibrium quantity of wheat?
A. The equilibrium price and equilibrium quantity both decrease.
B. The equilibrium price and equilibrium quantity both increase.
C. The equilibrium price decreases and the equilibrium quantity increases.
D. The equilibrium price increases and the equilibrium quantity decreases.
Question 10
The effect of a fall in the price of a complementary Product Y on the market for Product X will be to
A. shift the demand curve right and increase the equilibrium price.
B. shift the demand curve left and decrease the equilibrium price.
C. shift the supply curve left and increase the equilibrium price.
D. shift the supply curve right and decrease the equilibrium price.

Question 11
Countries around the world have debated the introduction of a ‘sugar tax’ to combat rising rates of childhood obesity and to educate consumers about the problems associated with consuming too much sugar. Such a tax is designed to overcome
A. a lack of public goods.
B. a negative externality and asymmetric information.
C. a negative externality and a misuse of common access resources.
D. asymmetric information and a misuse of common access resources.

Question 12
A contractionary stance in monetary policy by the Reserve Bank of Australia (RBA) could be achieved by
A. selling Commonwealth Government Securities to increase cash in the overnight money market.
B. buying Commonwealth Government Securities to increase cash in the overnight money market.
C. selling Commonwealth Government Securities to decrease cash in the overnight money market.
D. buying Commonwealth Government Securities to decrease cash in the overnight money market.

Question 13
Consider the following information for a hypothetical economy.

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<tbody>
<tr>
<td>total population</td>
<td>100 million</td>
</tr>
<tr>
<td>employed persons</td>
<td>70 million</td>
</tr>
<tr>
<td>unemployed persons</td>
<td>10 million</td>
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<tr>
<td>underemployed persons</td>
<td>2 million</td>
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Based on the data shown above, the unemployment rate of this hypothetical economy is
A. 10.0%
B. 12.0%
C. 12.5%
D. 15.0%
Question 14
A hypothetical economy recorded a balance of payments on current account of −$12,075 million in the September 2018 quarter and then −$3,510 million in the December 2018 quarter. What could be a likely cause of this change?
A. a decline in foreign investment
B. an improvement in the terms of trade
C. a slowdown in world economic growth
D. an appreciation of the hypothetical economy’s exchange rate

Question 15
In terms of achieving an efficient allocation of resources, the need for balancing current and future consumption relates to
A. dynamic efficiency.
B. allocative efficiency.
C. productive efficiency.
D. intertemporal efficiency.
SECTION B – Written responses

Instructions for Section B

Answer all questions in the spaces provided.

Question 1 (12 marks)

[Graph: Australia’s housing prices year-ended growth, seasonally adjusted]


a. Referring to the graph above, describe the trend in the growth of Australia’s housing prices over the past two years.

2 marks

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SECTION B – Question 1 – continued
b. Describe one likely effect of the trend in the growth of housing prices described in part a. on Australian living standards.  

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3 marks

c. Explain whether the demand for buying a house is likely to be price elastic or price inelastic.  

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3 marks
d. Assume the following policy changes are implemented:
   • The Reserve Bank of Australia (RBA) reduces the cash rate.
   • The Australian Government offers loan guarantees for first home buyers.

Select one of these policy changes and explain how the selected policy change may influence the housing market. Draw and label a demand and supply diagram to illustrate your explanation. 4 marks

[Diagram of demand and supply curve]
Question 2 (21 marks)

a. Explain the meaning of the term ‘business cycle’. 2 marks

b. Explain how one aggregate demand factor may cause a business cycle contraction. 3 marks
c. Explain the likely effect of a business cycle expansion on the rate of economic growth and on the rate of inflation. 4 marks
d. Using two monetary policy transmission mechanisms, explain the role of monetary policy in countering a slowdown in rates of economic growth.  

6 marks
e. Assume an economy is experiencing a fall in the rate of unemployment but a weaker than expected growth in wages.

Explain how this scenario might influence the setting of aggregate demand policies. 6 marks
Question 3 (22 marks)
a. Explain the relationship between the budget outcome and the level of government (public) debt. 4 marks
b. Select one example of a budgetary policy automatic stabiliser and describe how it operates to influence aggregate demand and the rate of economic growth. 4 marks
c. Discuss one likely impact of the Australian Government’s budgetary policy stance this year, as announced in the 2019–2020 Budget, on the achievement of full employment and low inflation (price stability).  

6 marks
d. Select one example of a welfare or taxation reform policy that has been implemented in Australia in 2018 or 2019, or that has been announced for implementation in the future, and explain how this policy is designed to influence aggregate supply and living standards. 4 marks

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e. Describe one strength and one weakness of using aggregate supply policies to achieve the Australian Government’s domestic macroeconomic goal of full employment. 4 marks
Question 4 (10 marks)

Growth in Australia’s major trading partners is expected to slow slightly over the next couple of years. Further US–China tariff measures came into effect in the past few months, and trade restrictions appear to be weighing on export orders for some economies. The possibility of trade protectionism escalating further presents a significant downside risk to global growth …

Source: RBA, Statement on Monetary Policy, November 2018, p. 1

a. Distinguish between trade liberalisation and barriers to trade. 3 marks

[Blank space for answer]

[Blank space for answer]

[Blank space for answer]

[Blank space for answer]

[Blank space for answer]

[Blank space for answer]

[Blank space for answer]

[Blank space for answer]
b. Explain one way in which a decline in the rate of economic growth of Australia’s major trading partners may influence either Australia’s balance of payments on current account or the value of the Australian dollar.

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3 marks
c. Assume Australia experiences an unfavourable movement in the terms of trade across a two-year period.

Explain how this scenario might affect Australia’s domestic macroeconomic goal of strong and sustainable economic growth, and Australia’s living standards.  

4 marks
Extra space for responses

Clearly number all responses in this space.
An answer book is available from the supervisor if you need extra paper to complete an 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.