

Print exam correction:
Section B, Question 3, table heading
'actual' has been changed to apply to
the '2021–2022' column only

STUDENT NUMBER Letter

ECONOMICS

Written examination

Tuesday 31 October 2023

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

Section	Number of questions	Number of questions to be answered	Number of marks
A	15	15	15
B	5	5	65
			Total 80

- Students are permitted to bring into the examination room: pens, pencils, highlighters, erasers, sharpener, rulers and one scientific calculator.
- Students are NOT permitted to bring into the examination room: blank sheets of paper and/or correction fluid/tape.

Materials supplied

- Question and answer book of 26 pages
- Answer sheet for multiple-choice questions
- Additional space is available at the end of the book if you need extra space 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

A young entrepreneur has run her own business and made a profit of \$40 000 for the financial year. She quit her job as an economist, where she would have earned \$120 000 for the same period.

The opportunity cost of running the business for the financial year was

- A. \$40 000
- B. \$80 000
- C. \$120 000
- D. \$160 000

Question 2

Which one of the following is **not** likely to be caused by an inflation rate of 7.8%?

- A. delayed consumption.
- B. erosion of purchasing power.
- C. distortions of investment decisions.
- D. a loss of international competitiveness.

Question 3

Which one of the following would be classified as government current expenditure when calculating aggregate demand?

- A. unemployment benefits provided by the Australian Government
- B. the payment of salaries to the police force by a state government
- C. a deposit paid by the Australian Government to the US Government for new nuclear submarines
- D. the purchase of new computers for the neighbourhood library by a local council

Question 4

Which one of the following is **not** a strength of monetary policy when trying to reduce aggregate demand?

- A. Indebted households on variable rate loans are highly responsive to higher interest rates.
- B. Sectors of the economy in which there is excess demand can be easily targeted.
- C. The cash rate can be raised in small increments.
- D. It has a short implementation lag.

Question 5

Which one of the following is **least likely** to result in a decrease in aggregate supply?

- A. an increase in interest rates
- B. a slower rate of productivity growth
- C. an increase in the number of people retiring
- D. a decrease in the availability of capital resources

Question 6

Consider the following information for a hypothetical economy.

unemployed persons	10 million
underemployed persons	5 million
employed persons	70 million
Total population	100 million

Based on the data shown above, the labour force underutilisation rate of this hypothetical economy is approximately

- A. 10%
- B. 13%
- C. 15%
- D. 19%

Question 7

The payment of dividends to Australians holding shares in foreign companies will be recorded in the balance of payments as

- A. a credit in the capital and financial account.
- B. a debit in the capital and financial account.
- C. a credit in the current account.
- D. a debit in the current account.

Question 8

Cyclical unemployment is **least likely** to be caused by

- A. a decrease in the size of the government's budget structural deficit.
- B. a decrease in the world price of iron ore.
- C. low rates of economic growth in China.
- D. negative interest rates.

Question 9

Which one of the following is an example of an automatic stabiliser?

- A. higher company tax collections due to increased profitability
- B. an increase in the cash rate due to an excessive inflation rate
- C. a decision by the Australian Government to proceed with the Stage 3 tax cuts
- D. increasing the goods and services tax rate to 12% due to an aging population

Question 10

The price elasticity of supply for avocados is likely to increase if

- A. preservatives are invented to extend the shelf life of avocados.
- B. there is an increase in demand for avocados.
- C. there is a decrease in the price of avocados.
- D. the cost of fertiliser increases.

Question 11

A cyclical factor that might cause Australia's current account balance to worsen is

- A. a high rate of economic growth in China.
- B. a high rate of economic growth in Australia.
- C. high energy costs due to the closure of coal-based power plants.
- D. lower productivity growth in Australia than in its major trading partners.

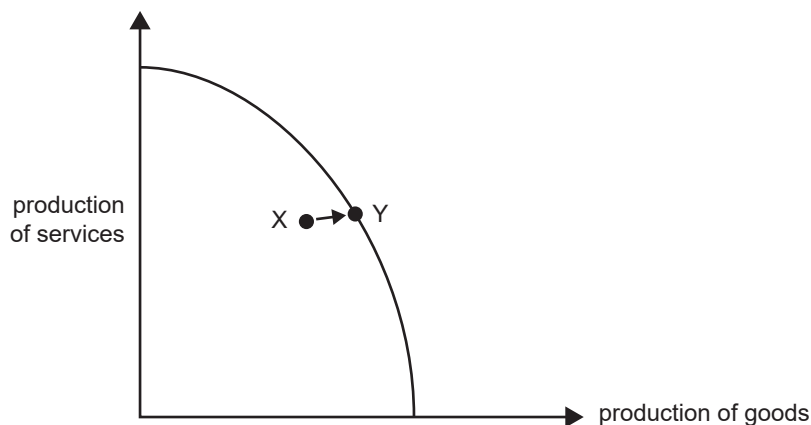
Question 12

Australia's terms of trade is likely to deteriorate if

- A. the Australian dollar appreciates.
- B. export prices rise faster than import prices.
- C. there is excess supply of iron ore in world markets.
- D. there is an increase in productivity growth in Australia's major trading partners.

Question 13

Consider the following production possibility frontier (PPF) for a hypothetical nation.



A movement from point X to point Y is **least likely** to result in

- A. an increase in technical efficiency.
- B. an increase in the nation's real GDP.
- C. a decrease in the nation's unemployment rate.
- D. a decrease in negative production externalities.

Question 14

Which one of the following outcomes is not usually associated with productivity growth?

- A. an increase in material living standards.
- B. an increase in international competitiveness.
- C. an increase in the prices of goods and services.
- D. an increase in the nation's productive capacity.

Question 15

Common access resources have which one of the following combinations of characteristics?

	Rivalrous	Excludable
A.	Yes	Yes
B.	Yes	No
C.	No	Yes
D.	No	No

DO NOT WRITE IN THIS AREA

SECTION B – Written responses**Instructions for Section B**

Answer **all** questions in the spaces provided.

Question 1 (12 marks)

- a. With reference to at least one economic indicator, identify the stage of the business cycle for the Australian economy since July 2023.

2 marks

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- b. Explain how one aggregate demand (AD) factor and one aggregate supply (AS) factor have caused changes in the business cycle in Australia in 2023.

4 marks

AD factor _____

Explanation _____

AS factor _____

Explanation _____

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Question 2 (10 marks)

Consider the changes to Australia’s tariff rates for passenger motor vehicles over time shown below:

	1990	1992	1994	1996	1998	2000	2005	2010	2015	2023
passenger motor vehicles	40%	35%	30%	25%	20%	15%	10%	5%	5%	5%

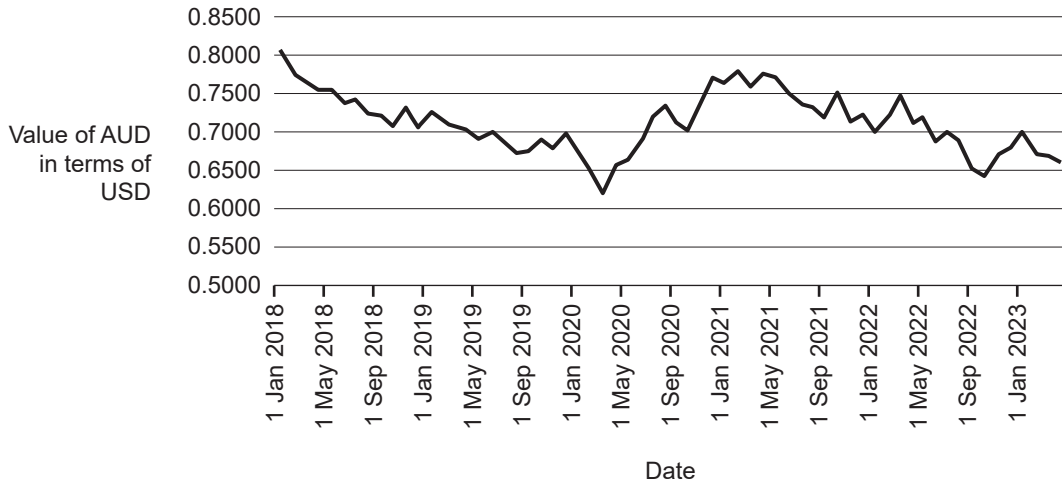
Source: adapted from The Centre for International Economics, ‘Australian trade liberalisation: Analysis of the economic impacts’, report, CIE, <thecie.com.au>

- a. Explain how the changes in tariffs on passenger motor vehicles since 1990 are likely to have affected the allocation of resources in Australia and living standards.

4 marks

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The following chart shows the value of the Australian dollar in terms of the United States dollar.



Source: adapted from Reserve Bank of Australia, 'Australian Dollar Trade-weighted Index', chart, RBA, <rba.gov.au>

- b. Outline **one** factor that would account for the downward trend in the Australian dollar against the US dollar since January 2022.

2 marks

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c. With reference to the chart on page 10, explain how the depreciation of the Australian dollar against the US dollar since January 2022 is likely to have affected the achievement of one domestic macroeconomic goal **and** living standards.

4 marks

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Question 3 (16 marks)

Australian Government budget outcomes

	Actual	Estimates				
	2021–2022	2022–2023	2023–2024	2024–2025	2025–2026	2026–2027
Underlying cash balance (\$ billion)	-32.0	4.2	-13.9	-35.1	-36.6	-28.5
Per cent of GDP	-1.4	0.2	-0.5	-1.3	-1.3	-1.0

Source: adapted from Commonwealth of Australia, 'Table 3.1' in 'Budget 2023–24, Budget Paper No. 1, Statement 3: Fiscal Strategy and Outlook', <budget.gov.au>

- a.** With reference to the table above, explain the relationship between changes in the Australian Government's budget outcome since 2021–2022 and the level of public debt. 3 marks

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- c. Predict how **one** discretionary stabiliser from the Australian Government’s 2023–2024 budget is likely to affect Australia’s rate of economic growth and living standards.

4 marks

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- d. Examine **one** weakness of using budgetary policy to slow the growth in aggregate demand and the rate of inflation.

3 marks

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Question 4 (15 marks)

Consider the following information about Australian house prices.

- National home values have dropped by 9.4% from peak to trough, which is the largest market decrease on record.
- House prices in Melbourne dropped by 9.8% between February 2022 and February 2023.
- During the same time period, the price of building a new house in Australia has increased significantly.

Sources: N Sweeney, ‘Sydney, Melbourne housing markets have bottomed’,
article, Australian Financial Review,
<afr.com>,

CoreLogic, ‘CoreLogic daily home value index’, webpage, CoreLogic,
<corelogic.com.au>

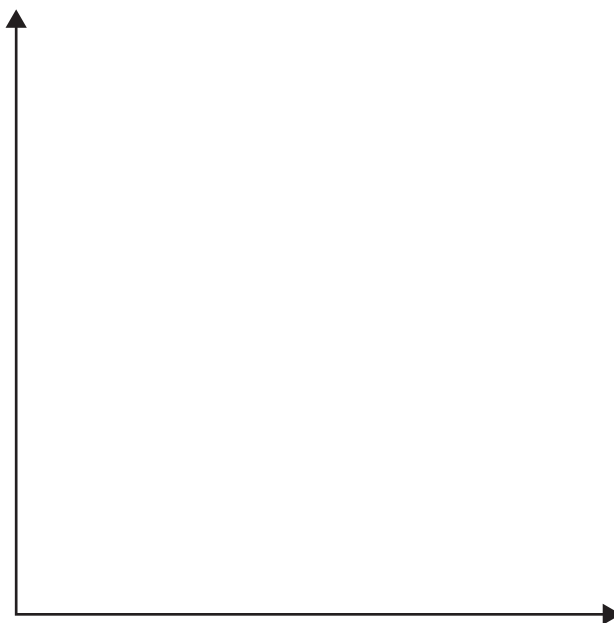
G Whiteside, ‘New home builds becoming more expensive amid increasing cost of
glass, cement, aluminium’, article, ABC News,
<abc.net.au>

- a.** Explain **two** non-price factors that might explain why house prices have fallen. 4 marks

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- b. Construct a fully labelled demand and supply diagram and use it to analyse how **one** non-price factor will cause a leftward movement along the demand curve for new houses, resulting in a new equilibrium price and quantity.

4 marks



- c. Explain **one** type of market failure that may be associated with the construction of new housing.

3 marks

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- d. With reference to the asset prices and wealth channel of monetary policy, explain why the fall in house prices might have a negative effect on aggregate demand and the achievement of the domestic macroeconomic goal of full employment.

4 marks

DO NOT WRITE IN THIS AREA

Question 5 (12 marks)

- a. Explain how aggregate supply policies might be used to complement aggregate demand policies to promote non-inflationary economic growth.

3 marks

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- b. Explain how an increase in skilled migration might affect productivity and Australia's international competitiveness.

4 marks

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