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Write your **student number** in the boxes above.

Letter

Economics

Question and Answer Book

VCE Examination – Thursday 30 October 2025

- Reading time is **15 minutes**: 11.45 am to 12 noon
- Writing time is **2 hours**: 12 noon to 2.00 pm

Approved materials

- One scientific calculator

Materials supplied

- Question and Answer Book of 24 pages
- Multiple-Choice Answer Sheet

Instructions

- Follow the instructions on your Multiple-Choice Answer Sheet.
- At the end of the examination, place your Multiple-Choice Answer Sheet inside the front cover of this book.
- Use the additional space at the end of this book if you need extra space to complete an answer.

Students are **not** permitted to bring mobile phones and/or any unauthorised electronic devices into the examination room.

Contents

pages

Section A (15 questions, 15 marks) _____ 2–5

Section B (7 questions, 65 marks) _____ 7–21

Section A – Multiple-choice questions

Instructions

- Answer **all** questions in pencil on your Multiple-Choice Answer Sheet.
 - 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.
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Question 1

Economics is primarily concerned with the question of how

- A. limited human wants may be satisfied with the use of limited resources.
- B. unlimited human wants can be satisfied using limited productive resources.
- C. limited government funds should be used to achieve specific social and political goals.
- D. unlimited factors of production can be best allocated for different uses.

Question 2

Allocative efficiency occurs when

- A. there is a balance between the use of resources for current consumption and future investment.
- B. a smaller volume of resources is needed to produce each unit of production.
- C. businesses become more innovative in the production process.
- D. the operation of market forces leads to economic welfare being maximised.

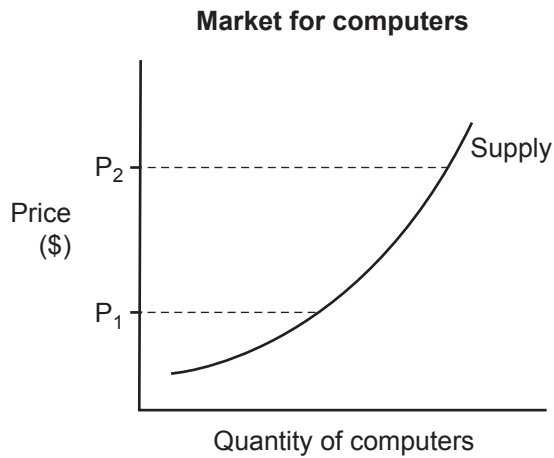
Question 3

The price elasticity of demand for a product will be greater

- A. the larger the number of substitutes for the product.
- B. the flatter the industry supply curve for the product.
- C. the smaller the proportion of income that consumers spend on the product.
- D. the more necessary consumers regard the product for their consumption.

Question 4

In the diagram below, the price of computers changes from P_1 to P_2 .



Which one of the following is the most likely cause of the price change?

- A. a fall in incomes
- B. an increase in demand for computers
- C. a fall in the price of a substitute good
- D. an increase in the costs of production

Question 5

The table below shows some labour market data for a hypothetical economy.

Year	Employed people (000s)	Labour force (000s)
2023	200	300
2024	400	500

Based on this data, which one of the following statements is true?

- A. The unemployment rate in 2024 was exactly the same as in 2023.
- B. The unemployment rate in 2024 was lower than in 2023.
- C. The unemployment rate in 2024 was higher than in 2023.
- D. There is not enough data to determine unemployment rates.

Question 6

Which one of the following is **not** an aggregate supply factor influencing the level of economic activity?

- A. an increase in the price of crude oil
- B. disruptions to international supply chains
- C. an increased rate of technological change
- D. slower rates of economic growth overseas

Question 7

Which one of the following best describes a regressive tax?

- A. a tax that takes proportionally less from low-income earners compared to high-income earners
- B. a tax that takes proportionally more from low-income earners compared to high-income earners
- C. a tax that takes proportionally more from high-income earners compared to low-income earners
- D. a tax that takes proportionally the same from all income earners

Question 8

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

- A. an increase in marginal taxation rates to improve equity
- B. an increase in the cash rate by the Reserve Bank of Australia (RBA)
- C. an increase in company tax paid to the government due to stronger economic growth
- D. a decrease in defence spending compared to the previous year

Question 9

The most likely outcome of the RBA increasing interest rates at the same time as the Australian Government is cutting its expenditure is

- A. a fall in aggregate demand but an increase in inflation.
- B. a decrease in aggregate supply and an increase in Gross Domestic Product (GDP).
- C. a decrease in inflation and an increase in unemployment.
- D. an improvement in the balance on current account.

Question 10

If the Australian economy was operating at a level close to capacity, policies that increase the level of aggregate demand would also be likely to increase

- A. employment and inflation.
- B. employment and real GDP.
- C. real GDP and inflation.
- D. employment, real GDP and inflation.

Question 11

Which one of the following is most likely to cause an appreciation in the value of the Australian dollar?

- A. a fall in global commodity prices
- B. a downgrade in Australia's credit rating
- C. an increase in imports relative to exports
- D. higher interest rates in Australia relative to other countries

Question 12

Which one of the following best describes the role of speculators in influencing the value of the exchange rate?

- A. Speculators buy or sell currency based on expected future movements.
- B. Speculators fix the exchange rate in coordination with the Australian Government.
- C. Speculators reduce volatility in currency markets and stabilise the exchange rate.
- D. Speculators only affect the value of the currency when interest rates are changed.

Question 13

Australia's Net Foreign Debt (NFD) consists of

- A. foreign ownership of Australian companies and property.
- B. the total value of Australian exports minus imports.
- C. loans, bonds and other borrowed funds Australia owes to foreign lenders less what Australia has loaned to overseas borrowers.
- D. profits and dividends paid by Australian companies to foreign investors.

Question 14

A country has an import prices index of 100 and an export prices index of 200.

The value of the terms of trade index for that country would be

- A. 200
- B. 2
- C. 100
- D. 0.5

Question 15

A decrease in tariffs on imported goods will lead to a

- A. rise in the price of imports and an increase in the quantity of imports.
- B. rise in the price of imports and a decrease in the quantity of imports.
- C. fall in the price of imports and a decrease in the quantity of imports.
- D. fall in the price of imports and an increase in the quantity of imports.

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Section B – Written responses

Instructions

- Answer **all** questions in the spaces provided.
 - Write your responses in English.
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Question 1 (5 marks)

a. Outline the characteristics of public goods.

2 marks

b. Using an example, explain why the direct provision of a good or service may address market failure.

3 marks

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Question 3 (14 marks)

- a. Achieving strong and sustainable economic growth is one of the goals of the Australian Government.

Outline what is meant by 'strong and sustainable' for this economic goal of the Australian Government.

2 marks

- b. The equation for aggregate demand (AD) comes from the five-sector circular flow of income model.

$$AD = C + I + G + X - M$$

Explain why, when calculating the total value of AD, the value of imports is subtracted from the other components.

3 marks

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Question 4 (12 marks)

Australia’s terms of trade index increased from 89.4 in the September quarter to 91.0 in the December quarter of 2024.

Source: Adapted from Australian Bureau of Statistics (ABS), ‘Balance of Payments and International Investment Position, Australia’, ABS, March 2025, <www.abs.gov.au/statistics/economy/international-trade>

a. Define ‘terms of trade’.

2 marks

b. Outline **one** factor that might explain the change in the terms of trade between the September and December quarters in 2024.

2 marks

Do not write in this area.

Question 5 (7 marks)

- a. When discussing the operation of monetary policy, interest rates are sometimes described as a 'blunt instrument' and a weakness of monetary policy.

Other than being a blunt instrument, outline **one** weakness of monetary policy in achieving the goal of strong and sustainable economic growth in Australia.

2 marks

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Question 6 (12 marks)

a. Describe **one** reason why the actual budget deficit for 2025–2026 may be smaller than the government’s estimated \$42.1 billion budget deficit for 2025–2026.

2 marks

b. Predict how **one** discretionary stabiliser from the Australian Government’s 2025–2026 budget is likely to affect Australia’s domestic macroeconomic goal of strong and sustainable economic growth.

4 marks

Do not write in this area.

