

**Victorian Certificate of Education  
2019**

SUPERVISOR TO ATTACH PROCESSING LABEL HERE

STUDENT NUMBER           Letter

**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**

<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 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.

total population	100 million
employed persons	70 million
unemployed persons	10 million
underemployed persons	2 million

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  $-\$3510$  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**

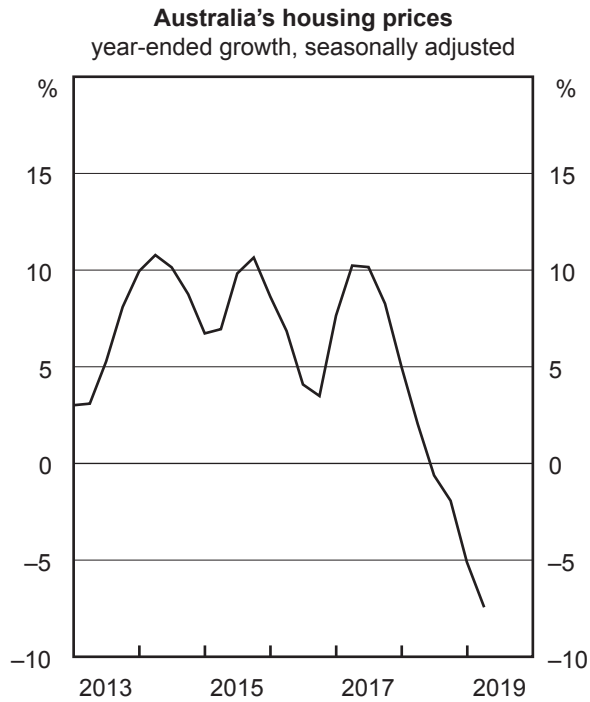
In terms of achieving an efficient allocation of resources, the need for balancing current and future consumption relates to

- 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)



Source: adapted from ABS; RBA Chart Pack, 'The Australian Economy and Financial Markets', August 2019, p. 7

- 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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**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

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**Question 2** (21 marks)

- a. Explain the meaning of the term 'business cycle'. 2 marks

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- b. Explain how **one** aggregate demand factor may cause a business cycle contraction. 3 marks

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