

VCE Economics

Written examination – End of year

Sample questions

These sample questions are intended to demonstrate how new aspects of Units 3 and 4 of VCE Economics may be examined. They do **not** constitute a full examination paper.

SECTION A – Multiple-choice questions

Question 1

All other things being equal, which one of the following is most likely to result in a shift of a country's production possibility frontier (PPF) to the left?

- A. a decrease in consumer confidence
- B. an increase in the unemployment rate
- C. an increase in the number of people retiring from paid employment
- D. a change in consumer preferences towards bigger houses

Question 2

Consider the following information about the production possibilities for a hypothetical economy.

Production of Good A (kg)	Production of Good B (kg)
1000	0
950	200
700	450
250	525
0	550

Based on this information, the opportunity cost of increasing production of Good A from 250 kg to 700 kg is

- A. 75 kg of Good B.
- B. 450 kg of Good A.
- C. 450 kg of Good B.
- D. 700 kg of Good A.

Question 3

Which one of the following factors is likely to result in a shift of the supply curve for fresh vegetable juices to the right?

- A. an increase in interest rates
- B. an increase in the price of vegetables
- C. an increase in the wages paid to employees
- D. an increase in the profitability for juice-making firms

Question 4

An increase in the price of coffee would result in an expansion along the supply curve for coffee because

- A. the wages of the coffee farmers have decreased.
- B. the quantity demanded will fall as the price increases.
- C. the price of fertiliser, which is needed to grow the coffee, has increased.
- D. the profitability associated with coffee production has increased.

Question 5

Economic growth may be considered excessive if

- A. it raises too much tax revenue.
- B. it results in a fall in the inflation rate.
- C. it causes the current account to move towards a deficit.
- D. it causes an increase in the number of people finding meaningful work.

Question 6

Hidden unemployment is likely to increase when

- A. the participation rate increases.
- B. the number of job vacancies decreases.
- C. it is harder to access unemployment benefits.
- D. there is an increase in the number of people working part-time.

Question 7

Consider the following Consumer Price Index (CPI) data for a hypothetical economy.

	2019	2020	2021	2022
Consumer Price Index (CPI)	100	103	105	104

Based on the information above, which one of the following statements is false?

- A. The country experienced deflation in 2022.
- B. The country experienced deflation in 2021 and 2022.
- C. The country experienced disinflation in 2021.
- D. On balance, over the four-year period, the general level of prices rose.

Question 8

Credits in the financial account are likely to increase if

- A. Australia’s saving rate increases.
- B. the Australian Government runs a large budget deficit.
- C. the cost of production for Australian producers decreases.
- D. the prices of Australia’s commodity exports increase in world markets.

Question 9

The value of the Australian dollar is likely to increase if

- A. Australia’s credit rating decreases.
- B. the price of commodity exports falls.
- C. there is an increase in primary income debits.
- D. speculators believe that the currency will appreciate.

Question 10

Consider the table below, highlighting the tax payable in three different tax systems.

Gross income (\$)	Tax system 1 – Tax payable	Tax system 2 – Tax payable	Tax system 3 – Tax payable
20 000	2000	10 000	0
50 000	5000	20 000	15 000
100 000	10000	30 000	40 000

Based on the information in the table, which one of the following statements is false?

- A. Tax system 2 is regressive.
- B. Tax system 3 is progressive.
- C. Tax system 2 is likely to rely heavily on indirect taxes.
- D. The average rate of tax will increase in all tax systems.

Question 11

An increase in Australia’s skilled immigration intake is likely to result in

- A. a shift of the PPF to the right.
- B. an increase in skills shortages.
- C. an increase in the unemployment rate.
- D. an increase in intertemporal efficiency.

Question 12

In the short term, trade liberalisation is likely to result in an increase in which one of the following types of unemployment?

- A. hidden unemployment
- B. cyclical unemployment
- C. frictional unemployment
- D. structural unemployment

Question 13

A reduction in tariffs on imported goods is likely to result in which of the following long-term effects?

- A. an increase in technical efficiency
- B. an increase in allocative efficiency
- C. an increase in dynamic efficiency
- D. all of the above

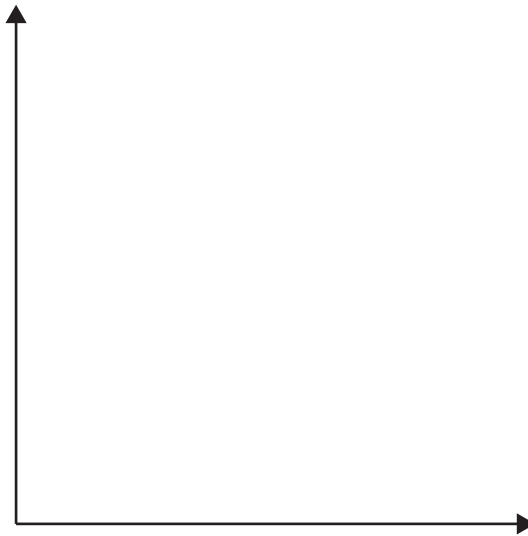
SECTION B – Written responses**Question 1** (11 marks)

Consider the following information about a hypothetical country's production possibilities.

Production combination	Production of wheat (tonnes per week)	Production of wine (thousands of bottles per week)
A	6000	0
B	5500	100
C	4500	350
D	3000	550
E	1000	650
F	0	700

- a. Using the data in the table above, construct a suitably labelled production possibility frontier (PPF) diagram.

3 marks



b. Assume that the economy is currently producing 4000 tonnes of wheat and 3000 bottles of wine.

i. On the PPF in **part a.**, label the current combination of wheat and wine as point X. 1 mark

ii. Explain whether this economy has achieved productive efficiency. 2 marks

c. Imagine that changes in the market result in a reallocation of resources such that combination D is achieved instead of combination B.

Evaluate whether this reallocation of resources might result in a more allocatively efficient outcome. 5 marks

Question 2 (15 marks)

Northern NSW farmers face total crop losses after widespread flooding

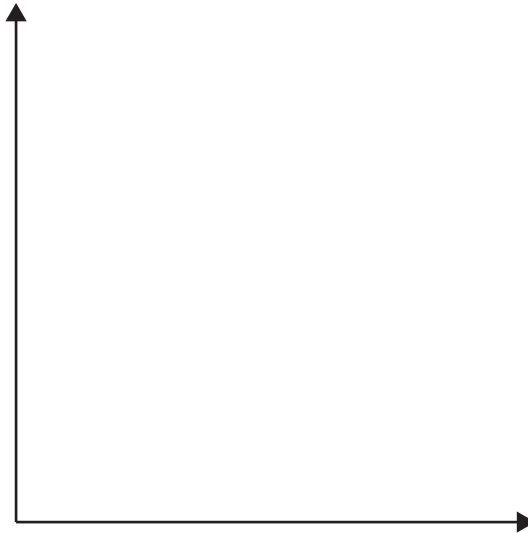
Crop farmers in northern New South Wales are anticipating entire crops will be lost after floodwaters completely submerge hundreds of hectares of soybean, rice, cane and macadamia farms.

Widespread damage to soybean farms in the Northern Rivers is a major concern for the industry, with a number of soybean farmers already reporting total crop loss.

Fairy Hill soybean and rice grower Brett Slater said he has been hit hard but it is too early to assess the full extent of the crop damage.

Source: K Honan and K Johnson, 'Northern NSW farmers face total crop losses after widespread flooding', ABC Rural, 3 March 2022, <www.abc.net.au>

- a. Based on the information in the extract above, construct a suitably labelled demand and supply diagram to illustrate the predicted impact on the market for soybeans. 3 marks



- b. Describe how the market for soybeans will move from a temporary state of disequilibrium to a new equilibrium following the changes outlined in the extract. 3 marks

- c. For **one** of the crops discussed in the extract on page 7, distinguish between the substitution effect and the change in the price of a substitute with reference to their respective effects on the demand curve.

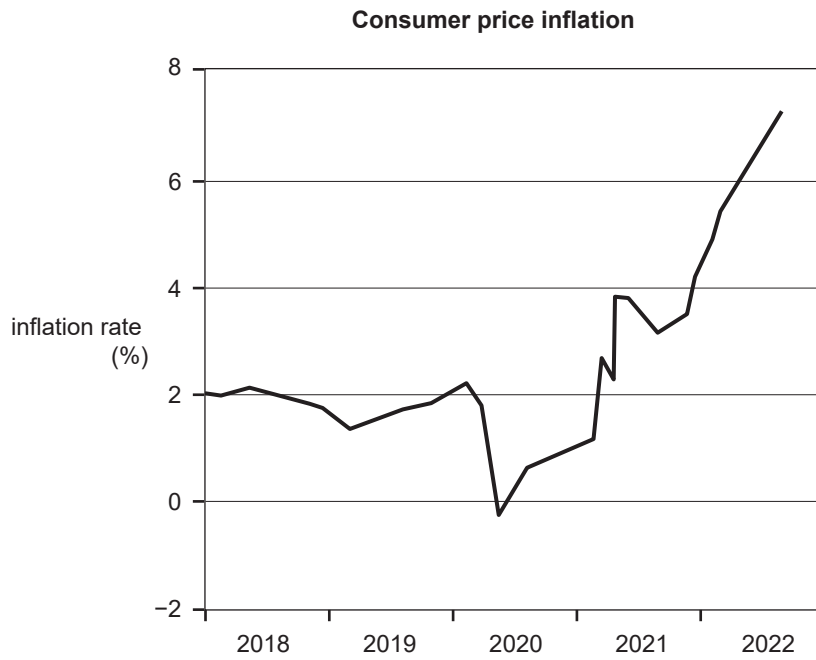
3 marks

- d. Explain how Australia’s market economy answers the three basic economic questions.

6 marks

Question 3 (18 marks)

Consider the following graph.



Source: adapted from ABS; RBA Chart Pack, 'The Australian Economy and Financial Markets', January 2023, p. 5

- a. Analyse how the trend in the inflation rate since January 2021 is likely to have affected **two** of the following:
- purchasing power
 - international competitiveness
 - spending and investment decisions
 - wages growth

4 marks

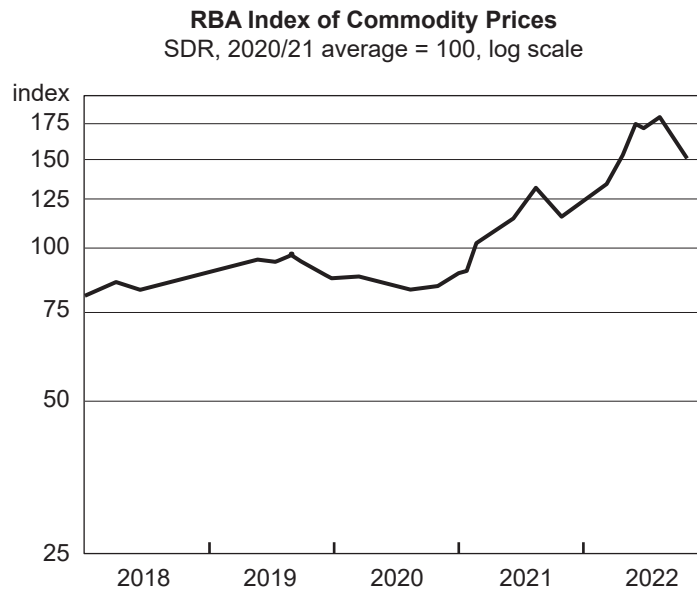
b. Explain why deflation may be associated with an increase in the unemployment rate. 2 marks

c. Distinguish between hidden unemployment and underemployment. 3 marks

d. Explain how the trend in the inflation rate has affected the use of conventional monetary policy since the beginning of 2022. 3 marks

Question 4 (27 marks)

Consider the following graph.



Source: adapted from ABS; RBA Chart Pack, 'The Australian Economy and Financial Markets', January 2023, p. 16

- a. Analyse the likely impact of the trend in commodity prices, shown in the graph, on Australia's terms of trade. 2 marks

- b. Explain why an increase in commodity prices is usually associated with an increase in the value of the Australian dollar. 2 marks

- c. Explain why an increase in the terms of trade may make it harder for the Reserve Bank of Australia (RBA) to achieve its goal of low and stable inflation. 3 marks

- d. Analyse the impact on Australia’s international competitiveness and living standards of **one** of the following budgetary policy initiatives targeting aggregate supply:
- training and education
 - research and development
 - subsidies
 - infrastructure
 - tax reform
- 6 marks

- e. Explain how trade liberalisation may affect the achievement of the goal of strong and sustainable economic growth in the short term and in the long term.

4 marks

- f. Analyse how an increase in Australia’s skilled migrant intake may boost Australia’s productive capacity and economic recovery.

4 marks

Answers to multiple-choice questions

Question	Answer
1	C
2	A
3	D
4	D
5	C
6	B
7	B
8	B
9	D
10	D
11	A
12	D
13	D