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**ECONOMICS UNITS 3 & 4**

2019

**TRIAL EXAM A**

Reading time: 15 minutes

Writing time: 2 hours

**QUESTION AND ANSWER BOOK**

Structure of book

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

* Students are permitted to bring into the practice examination: pens, pencils, highlighters, erasers, sharpeners and rulers.
* Students are NOT permitted to bring into the examination room: blank sheets of paper and/or white out liquid/tape.
* No calculator is allowed in this examination

**Materials supplied**

* Question and answer book of 23 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** and **name** in the space provided above on this page.
* Check that your **name** and student number are written on your multiple choice answer sheet.
* All written responses must be in English.

**At the end of this examination**

* Place the answer sheet for multiple-choice questions inside the front cover of this book.

|  |  |  |  |
| --- | --- | --- | --- |
| *Section* | *Number of questions* | *Number of questions to be answered* | *Number of marks* |
| A | 15 | 15 | 15 |
| B | 4 | 4 | 65 |
|  |  |  | Total 80 |

**Instructions for Section A**

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**

Which one of the following will cause the supply curve for a good to increase?

1. increase in government taxes
2. increase in the level of income
3. increase in worker productivity
4. a decrease in the price of a substitute good

**Question 2**

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**Figure 1.1** – Market for Fitbit Watch

Which of the following **does not explain** the change in the market for Fitbit watches?

1. consumers preference for Fitbit watches decreased
2. the price of sports running shoes fell by 20%
3. the price of Garmin fitness watches fell by 20%
4. disposable income fell on average by 10%

**Question 3**

Market failure is likely to occur in a market when

* 1. resources are allocated to those areas that maximize society’s wellbeing
  2. it is possible to make someone better off without making someone else worse off
  3. firms use resources in the most efficient manner
  4. there are no spillovers from production or consumption

**SECTION A** – continued

**TURN OVER**

**Question 4**

Which of the following is **not** a characteristic of a perfectly competitive market?

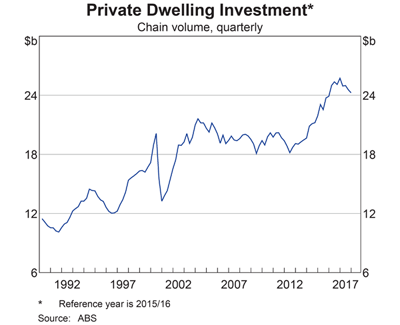
1. firms are price makers
2. homogenous goods that are sold
3. ease of entry and exit from the market
4. perfect knowledge is shared between sellers and buyers

**Question 5**

Which of the following best describes an economy experiencing a contraction in economic activity?

1. Unemployment is increasing, GDP is falling and inflation is rising
2. Unemployment is decreasing, GDP is rising and inflation is rising
3. Unemployment is increasing, GDP is falling and inflation is declining
4. Unemployment is decreasing GDP is rising and inflation is declining

**Question 6**



**Graph 1.1 – Private Dwelling Investment**

Which of the following **best describes** the trend in private dwelling investment since 2002?

1. the trend was increasing from approximately $12b to around $24b
2. the trend was decreasing from around $18b to approximately $12b
3. the trend was increasing from approximately $18b to around $24b
4. the trend was increasing from $20b to around $26b

**SECTION A** – continued

**TURN OVER**

**Question 7**

Which of the following is **not** directly related to the measurement of Non Material Living Standards (NMLS) in Australia?

1. the amount of leisure time people have
2. the quantity of goods and services produced
3. the level of crime rates in capital cities
4. the level of family breakdown and divorce rates

**Question 8**

Which of the following combinations is **not likely** to increase the level of economic growth?

1. higher levels of business confidence and decreased interest rates
2. lower levels of personal income taxes and a higher labour force participation rate
3. strong rates of growth in Japan and an increase in productivity
4. lower levels of consumer confidence and appreciating Australian dollar

**Question 9**

International trade allows the living standards of countries to increase. Which of the following would be an argument that contradicts this statement?

1. The degree of choice and wider range of goods and services available through international trade assists in improving the non-material living standards of a nation.
2. Free trade agreements mean Australian firms encounter stronger competition from overseas, resulting in businesses needing to improve efficiency. Structural adjustment makes some workers redundant and better off.
3. Free trade agreements, like Australia’s FTA with Chile, provide greater access to overseas markets and support stronger rates of real GDP in Australia. Increased employment from rising production levels improve material and non-material living standards.
4. Comparative cost advantage, the theorem developed by David Ricardo, encourages greater specialisation in trade and forces resources to be more efficiently allocated, improving material living standards.

**Question 10**

Which of the following is **unlikely** to improve Australia’s international competitiveness?

1. falling labour productivity overseas
2. a depreciation in the value of the Australian dollar
3. an increase in union protests and strikes across the labour market
4. a fall in Australia’s inflation rate

**SECTION A** – continued

**TURN OVER**

**Question 11**

In relation to Australia’s Net Foreign Debt (NFD), which of the following statements is incorrect?

1. Australia’s NFD as a percentage of GDP is above 50%
2. NFD and Net Foreign Equities(NFE) combine to produce Australia’s Net Foreign Liabilities
3. NFD makes up a smaller percentage of Australia’s Net Foreign Liabilities than NFE
4. The government sector’s share of NFD is smaller than the private sector’s share of NFD

**Question 12**

Which of the following is **not** considered to be an aggregate supply policy?

1. expansionary monetary policy
2. reforms to the tax system
3. provision of subsidies for consumers
4. grants for research and development

**Question 13**

One main weakness of using immigration policy to influence aggregate supply

1. operates to simultaneously achieve the 3 key macroeconomic goals
2. can boost both the quality and quantity of the labour force reducing the level of skill shortages
3. boosts Australia’s productive capacity and extends Australia’s sustainable level of economic growth
4. political effects can undermine the decision-making because of the desire to be re-elected

**Question 14**

Which of the following is **likely** to assist with restoring the budget surplus in the coming years?

1. bracket creep (fiscal drag)
2. lower Iron Ore prices
3. slower growth in China
4. deflation

**SECTION A** – continued

**TURN OVER**

**Question 15**

**Proposed changes to Progressive Income Tax System**



**Table 1.1 – Progressive Income Tax System**

In reference to the information provided in Table 1.1, which of the following statements is **most correct**?

1. The proposed changes will have an adverse effect those earning between $100,000 - $150,000
2. The tax free threshold will change between 2017 and 2025
3. The proposed changes will increase the level of disposable income for those earning between $100,000 - $150, 000
4. The marginal tax rate is 45 cents in every dollar earnt above $180, 000 in 2025

**END OF SECTION A**

**TURN OVER**

**SECTION B – Written responses**

**Instructions for Section B**

Answer **all** questions in the spaces provided

|  |  |
| --- | --- |
| Mar-2017 | 2.2 |
| Jun-2017 | 2.3 |
| Sep-2017 | 2.5 |
| Dec-2017 | 2.8 |
| Mar-2018 | 3.0 |
| Jun-2018 | 3.0 |
| Sep-2018 | 2.7 |
| Dec-2018 | 2.2 |
| Mar-2019 | 1.7 |

Table 1.1 - Gross domestic product: Chain volume measures(%)

(ABS Series: 5206.0 - Australian National Accounts: National Income, Expenditure and Product)

**Question 1 (13 marks)**

1. Describe the trend in real Gross Domestic product since 2018. (2 marks)

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1. Describe how a downturn(contraction) in the business cycle might impact aggregate demand. (4 marks)

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1. Examine how a depreciating Australian dollar could affect the level of economic growth in Australia. (4 marks)

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1. Select **one** of the following:

* Downturn(contraction) in the business cycle
* Depreciating Australian dollar

Describe how the economic event chosen is likely to impact Australia’s current account deficit (CAD). (3 marks)

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**Question 2 (18 marks)**

1. Distinguish between government current expenditure and government capital expenditure (Use examples in your response). (4 marks)

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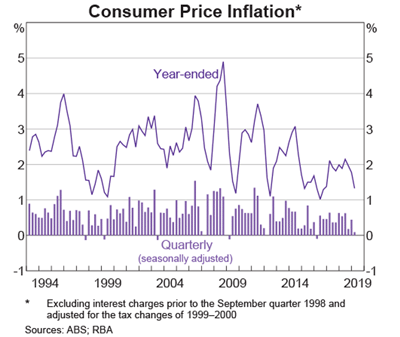
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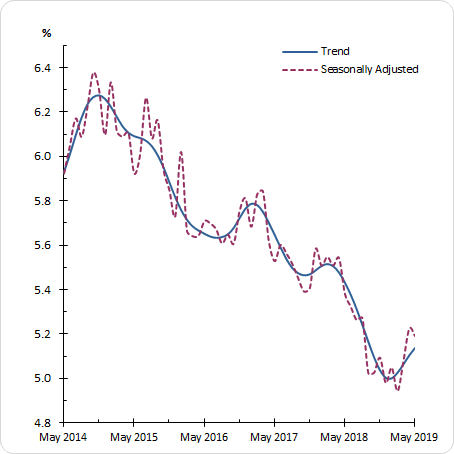
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**Graph 1.1 – Inflation Rate 1994 through to 2019 (Source: RBA Chart Pack 2019)**



**Graph 1.2 – Australia’s Unemployment Rate**

(in answer b. refer to Graph 1.1 and Graph 1.2)

1. Analyse how the recent movements (past 2 years) in the inflation rate and unemployment rate may have influenced the setting of budgetary policy in 2019-2020. (8 marks)

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1. Outline how automatic stabilisers could affect the budget outcome in 2019-2020. (3 marks)

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“At its meeting today, the Board decided to lower the cash rate by 25 basis points to 1.25 per cent” (RBA press Release 4th June 2019)

1. Describe how the change to the cash rate is intended to influence the cash flow transmission mechanism of monetary policy. (3 marks)

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**Question 3 (18 marks)**

1. Discuss how aggregate supply policies are designed to improve Australia’s international competitiveness. (4 marks)

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1. Examine the way tax reform policies can operate to have a positive effect on an efficient allocation of resources. (4 marks)

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1. Select one of the following aggregate supply policies

* Subsidies
* Investment in infrastructure
* Welfare reform policy

Outline one strength and one weakness of using the policy to achieve domestic macroeconomic goals. (4 marks)

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1. Explain how immigration policy can be used to boost the labour force participation rate and achieve the goal of low inflation. (6 marks)

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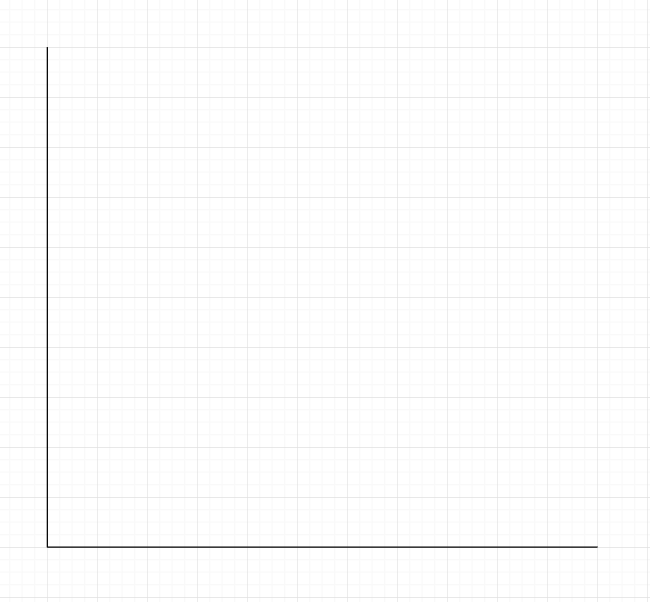
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**Question 4 (16 marks)**

1. On the graph below, draw the demand curve for a good that exhibits a price elasticity of demand that is inelastic. (Illustrate why it is inelastic) (3 marks)



1. Outline why the production period affects the price elasticity of supply. (3 marks)

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1. Explain how resources are allocated in a perfectly competitive market. (4 marks)

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1. Compare the way indirect taxation and government advertising operate to address the problems caused by market failure. (6 marks)

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**END OF QUESTION AND ANSWER BOOK**

**Extra space for responses**

Clearly number all responses in this space

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