Economics Unit 1 practice exam 2012 and suggested answers

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The following VCE Economics Unit 1 practice exam consists of 15 multiple-choice questions (Section A) and four written-response questions (Sections B, C and D).

Teachers should select 15 multiple-choice questions, as indicated on the exam cover sheet, based on the optional economic issue selected for study from Area of Study 2 in Unit 1. An additional five multiple-choice questions have been provided to cater for the optional economic issues in Area of Study 2: 'Creation and distribution of wealth and income' and 'Inflation'.

Note that the questions in Sections B and C are based on the compulsory topics in Areas of Study 1 and 2 in Unit 1. The questions in Section D are based on the optional economic issues in Area of Study 2: 'Creation and distribution of wealth and income' and 'Inflation'. If teachers have covered one of these issues, they should choose the corresponding question from the two questions provided. If they have not covered either of these issues, they should substitute the questions with a question based on the economic issue selected. Alternatively, they could use Parts A, B and C of the exam only.

Additional space is provided at the end of the question-and-answer book.

The practice exam and suggested answers are based on the author's interpretation of the VCE Economics Study Design.

Teachers are advised to preview and evaluate all practice exam material before distributing it to students.

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ECONOMICS UNIT 1

Practice written examination 2012

Reading time: 15 minutes
Writing time: 90 minutes

QUESTION AND ANSWER BOOK

Structure of book

Section	Number of questions	Number of questions to be answered	Number of marks
A	15	15	30
B	2	2	30
C	1	1	20
D	1	1	10
			Total: 90 marks

- 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 white-out liquid/tape.
- No calculator is allowed in this examination

Materials supplied
- Question and answer book
- 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. Clearly label all answers with the appropriate section and question number.

Instructions
- Write your name on this page and on the multiple-choice answer sheet.
- All questions in both sections of this practice exam are compulsory.
- The multiple-choice questions in Section A are to be completed in pencil on the sheet provided.
- All written-response questions are to be completed in blue or black pen in the spaces provided.
- 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.

COMPAK

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 2, 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

Study the information in the following table.

Food	100	80	60	40	20	0
Clothing	0	5	10	15	20	25

The opportunity cost of producing 40 units of food is:

- **A.** 25 units of clothing.
- **B.** 15 units of clothing.
- **C.** 10 units of clothing.
- **D.** 5 units of clothing.

Question 2

Relative scarcity occurs as a result of having:

- **A.** limited wants and unlimited amounts of resources available.
- **B.** a limited supply of labour relative to capital.
- **C.** a limited amount of land relative to labour.
- **D.** limited amounts of resources available but unlimited wants.

Question 3

Which one of the following is **not** a characteristic feature of the Australian economy?

- **A.** predominantly demand and supply determining prices
- **B.** some government economic decision-making
- **C.** predominantly private sector ownership of resources
- **D.** predominantly government control of prices

Question 4

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

    A. firms sell differentiated products

    B. firms aim to maximise profit levels

    C. firms have the freedom to enter and exit the market

    D. all firms are price takers

Question 5

An industry that is classified as having monopolistic competition will **not** have:

    A. profit maximisation as its goal.

    B. product differentiation.

    C. only one seller in the industry.

    D. moderate ease of entry and exit by firms.

Question 6

Price takers will only exist when there are/is:

    A. monopolies, duopolies and oligopolies.

    B. imperfect competition.

    C. firms able to set prices independently of the market mechanism.

    D. a high level of competition between firms.

Question 7

For an industry with an upward-sloping supply curve and a downward sloping demand curve, an increase in the price of an input into production, such as labour, will lead to:

    A. a shift to the left of the supply curve and a contraction in demand.

    B. a shift to the right of the supply curve and an extension of demand.

    C. a shift to the left of the demand curve and a contraction in supply.

    D. a shift to the right of the demand curve and an extension of supply.

Question 8

Which of the following best describes the effect on the market for apples when the price of bananas (a close substitute) decreases?

    A. demand for bananas will decrease and result in a higher price for apples

    B. demand for bananas will increase and result in a higher price for apples

    C. demand for bananas will decrease and result in a lower price for apples

    D. demand for bananas will increase and result in a lower price for apples

Question 9

Economists view global warming as an example of:

- **A.** a positive externality.
- **B.** a collective service.
- **C.** a negative externality.
- **D.** a producer good.

Question 10

The largest expenditure component of Gross Domestic Product (GDP) each year is:

- **A.** exports.
- **B.** imports.
- **C.** government expenditure.
- **D.** private consumption expenditure.

Question 11

The table below shows the changes in economic growth over three years.

Year	Economic growth (% change in real GDP)
1	4.0%
2	3.5%
3	3.0%

Which one of the following factors would account for the trend in economic growth?

- **A.** labour productivity decreases
- **B.** consumer and business confidence is high
- **C.** interest rates are low
- **D.** the global economy is booming

Question 12

Which one of the following could increase Australia's rate of economic growth?

- **A.** severe floods in NSW and Queensland
- **B.** the ongoing eurozone crisis
- **C.** the federal government budget remaining in deficit rather than moving into surplus
- **D.** the USA struggling to move out of recession

Question 13

Use the following data to calculate the value of GDP.

C = $60 million, I = $15 million, G1 and G2 = $20 million, X = $5 million, M = $6 million

    A. $106 million

    B. $94 million

    C. $95 million

    D. $80 million

Question 14

Which of the following represents the most accurate definition of economic growth?

    A. When a nation increases the real value of goods and services produced over a period of time

    B. When a nation increases the volume of its exports and imports over a period of time

    C. When a nation increases the number of goods and services it produces over a period of time

    D. When a nation increases the quality of the goods and services it produces over time

Question 15

Which of the following are leading economic indicators?

    A. retail sales and new car registrations

    B. the unemployment rate and the inflation rate

    C. interest rates and the inflation rate

    D. business confidence and consumer confidence

Question 16

Which one of the following factors will put downward pressure on inflation in Australia?

    A. the introduction of a carbon tax

    B. a global recession

    C. a rise in crude oil prices

    D. a rise in company tax rates

Question 17

In a period of high inflation, which of the following groups would be most advantaged by high rates of inflation in Australia?

    A. people on fixed incomes such as pensioners

    B. people who invest in non-productive assets

    C. workers in weak unions

    D. Australian exporters

Question 18

Which of the following policy decisions is likely to generate greater inequity in the distribution of income in Australia?

- **A.** the GST rate is increased
- **B.** the Medicare rebate for private health insurance is means tested
- **C.** the luxury car tax rate is increased
- **D.** pensions are increased

Question 19

A taxpayer, X, earning $50 000 per year is taxed $10 000. A second taxpayer, Y, earning $90 000 per year is taxed $30 000. A third taxpayer, Z, earning $120 000 per year is taxed $60 000. In this case, the income tax system would be considered to be:

- **A.** flat
- **B.** proportional.
- **C.** regressive.
- **D.** progressive.

Question 20

Study the following table.

Mean income per week Income share %	2003–04	2005–06	2007–08	2009–10
Lowest quintile	8.0	7.8	7.3	7.4
Second quintile	12.8	12.7	12.3	12.4
Third quintile	17.6	17.4	16.9	17.0
Fourth quintile	23.2	23.0	22.6	23.0
Highest quintile	38.4	39.2	41.0	40.2
All income units	**100.0**	**100.0**	**100.0**	**100.0**
Gini coefficient	0.306	0.314	0.336	0.328

Source: Australian Bureau of Statistics, http://www.abs.gov.au, Cat. No. 6523.0

From the above table it can be concluded that:

- **A.** the top 40 per cent of income earners receive more than 60 per cent of weekly income.
- **B.** the degree of income inequality has improved dramatically between 2003–04 and 2007–08.
- **C.** the Gini coefficient show a slight improvement each year.
- **D.** The lowest 10 per cent of income earners only receive between 7.0 to 8.0 per cent of gross weekly income.

END OF SECTION A

SECTION B—Written responses

Instructions for Section B

Answer **all** parts of **Questions 1 and 2** in pen in the spaces provided.

Question 1

a. Define the economic concept of opportunity cost.

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1 mark

b. Describe **two** characteristics of a perfectly competitive market.

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4 marks

c. Explain **one** reason why the government might intervene in markets to increase the level of competition in the Australian economy.

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3 marks

d. Define the term 'market failure'. Use the example of global warming to explain how the government can intervene to try and correct market failure.

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3 marks

e. Businesses can use a number of strategies to increase their market share and gain a competitive advantage. Discuss how predatory pricing could be used to maximise profits.

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3 marks

Question 2

The following hypothetical information is a demand and supply schedule (table) for new bicycles in Melbourne.

| Price ($)	Quantity demanded per week	Quantity supplied per week
300	600	200
500	500	300
700	400	400
900	300	500
1100	200	600
1300	100	700

a. Graph the above information onto the graph 'paper' below. Be sure to label the graph and both axis correctly. Mark in the equilibrium price and quantity.
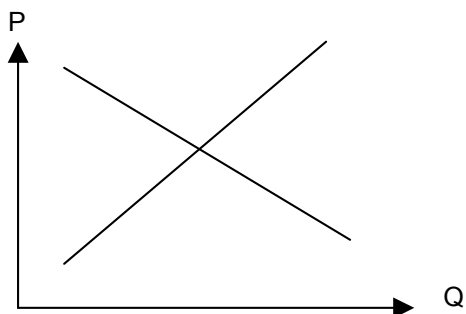
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4 marks

b. For each of the following scenarios, mark on the graph and explain the impact on the equilibrium price and quantity of new bicycles sold in Melbourne.

i. The price of public transport increases by 30 per cent.

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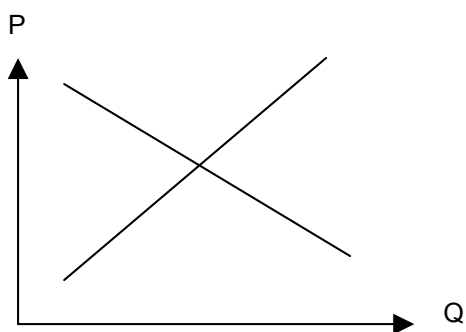
ii. The Melbourne City Council decides to expand the number of bicycle paths in Melbourne.

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iii. The Australian dollar continues to appreciate against major currencies.

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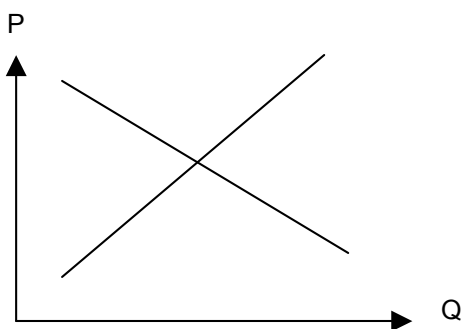
iv. Labour costs rise for bicycle manufacturers.

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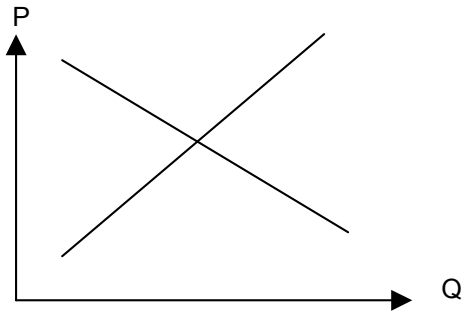
12 marks

END OF SECTION B

SECTION C—Written responses

Instructions for Section C

This section has **one** question. Answer **all** parts of the question in pen in the spaces provided.

Question 1

a. Define what is meant by 'strong and sustainable economic growth'.

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2 marks

b. Explain **two** limitations of GDP as an effective measure of economic growth and living standards in Australia.

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4 marks

c. Select **one** aggregate demand factor and **one** aggregate supply factor from the list below and explain how each would affect the rate of economic growth in Australia.

    i. recession in Europe and Japan

    ii. increased consumer confidence

    iii. skills shortage in Australia

    iv. lower interest rates

4 marks

d. Distinguish between the following pairs of terms.

    i. material and non-material living standards

    ii. non-market production and market production

4 marks

e. Explain how the introduction of a carbon tax might have a negative impact on the level of economic growth in Australia, in the short-term.

3 marks

f. 'Strong and sustainable economic growth needs to focus on minimising negative externalities'. Discuss **one** government policy initiative that may help promote sustainable development.

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3 marks

END OF SECTION C

SECTION D—Written responses

Instructions for Section D

This section has **one** question. Answer **all** parts of the question in pen in the spaces provided.

Note: Teachers should select Question 1 or 2 according to the economic issue selected for study from Area of Study 2 in Unit 1, or substitute these questions with one of their own, based on the economic issue selected.

Question 1

**a.** Outline **one** reason for the inequitable distribution of income and wealth in Australia.

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2 marks

b. Study the data in the following table to help you answer the questions below.

Mean income per week Income share %	2003–04	2005–06	2007–08	2009–10
Lowest quintile	8.0	7.8	7.3	7.4
Second quintile	12.8	12.7	12.3	12.4
Third quintile	17.6	17.4	16.9	17.0
Fourth quintile	23.2	23.0	22.6	23.0
Highest quintile	38.4	39.2	41.0	40.2
All income units	**100.0**	**100.0**	**100.0**	**100.0**
Gini coefficient	0.306	0.314	0.336	0.328

Source: Australian Bureau of Statistics, http://www.abs.gov.au, Cat. No. 6523.0

Use the 2009–10 weekly income data to draw and fully label a Lorenz curve.
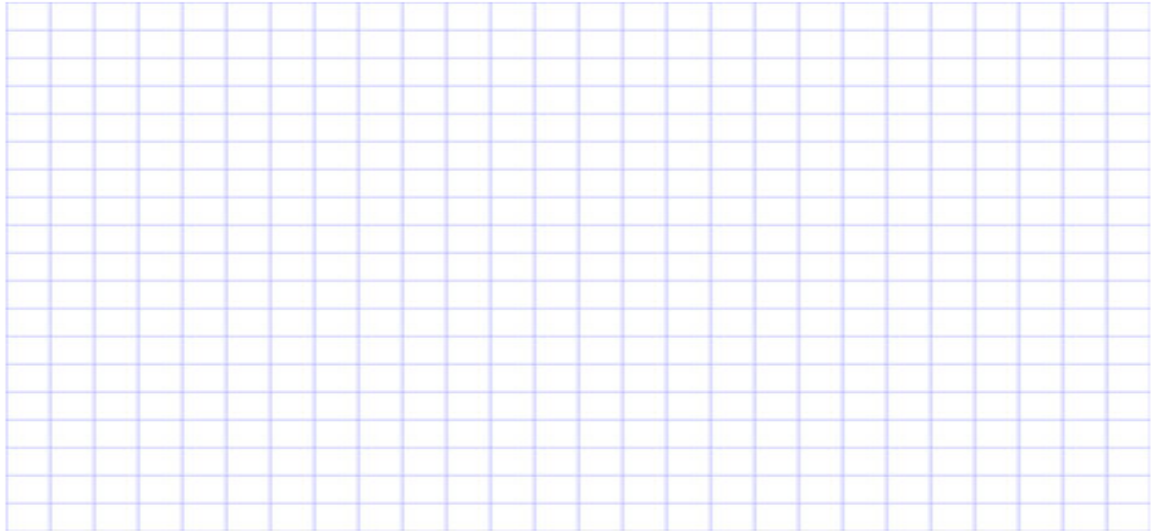
3 marks

c. Define what the Gini coefficient is and describe the trend in the Gini coefficient since 2003–04.

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3 marks

d. Discuss how **one** of the following government policies could impact on the distribution of income and/or wealth in Australia.

   i.   the government introduces a carbon tax

   ii.   the government means tests the 30 per cent private health insurance rebate

   iii. the government raises the tax-free threshold for personal income to $25 000

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2 marks

Question 2

a. Define what is meant by the economic goal of low inflation.

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2 marks

b. Examine **one** weakness of using the CPI as the main measure of inflation in Australia.

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2 marks

c. Explain how **one** of the following factors is likely to put upward or downward pressure on inflation in Australia.

    i. the Australian dollar appreciates significantly

    ii. weak economic growth in Europe and Japan

    iii. the introduction of a carbon tax

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3 marks

d. Australia has a low inflation rate, according to the Reserve Bank of Australia (RBA). A recent RBA *Statement on Monetary Policy* reads: 'In underlying terms inflation is forecast to remain around the midpoint of the target range for most of the next couple of years …' (*Statement on Monetary Policy*, RBA, February 2012)

Explain how a low inflation rate would impact on **one** of the following.

i. the value of Australia's exports

ii. the distribution of income in Australia

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3 marks

END OF QUESTION AND ANSWER BOOK

Economics Unit 1 practice exam 2012

ANSWER SHEET FOR SECTION A

Student name: _____

Use a **pencil** for **ALL** entries. For each question, shade the box that indicates your answer. All answers must be completed like the example below.

1 [▓] [B] [C] [D]

Marks will **NOT** be deducted for incorrect answers.

NO MARK will be given if more than **ONE** answer is completed for any question.

If you make a mistake, **ERASE** the incorrect answer—**DO NOT** cross it out.

ONE ANSWER PER LINE

1. [A] [B] [C] [D]

2. [A] [B] [C] [D]

3. [A] [B] [C] [D]

4. [A] [B] [C] [D]

5. [A] [B] [C] [D]

6. [A] [B] [C] [D]

7. [A] [B] [C] [D]

8. [A] [B] [C] [D]

9. [A] [B] [C] [D]

10. [A] [B] [C] [D]

11. [A] [B] [C] [D]

12. [A] [B] [C] [D]

13. [A] [B] [C] [D]

14. [A] [B] [C] [D]

15. [A] [B] [C] [D]

Extra space for responses

Clearly number all responses in this space.