Student Name: _____

ECONOMICS UNITS 3&4
2021 Written Trial Examination

Reading time: 15 minutes
Writing time: 2 hours

QUESTION AND ANSWER BOOK

Structure of book

Section	Number of questions	Number of questions to be answered	Number of marks
A	15	5	15
B	4	4	60
			Total 75

- 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 21 pages
- Answer sheet for multiple-choice questions
- Additional space is available at the end of the book if you need extra space 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.
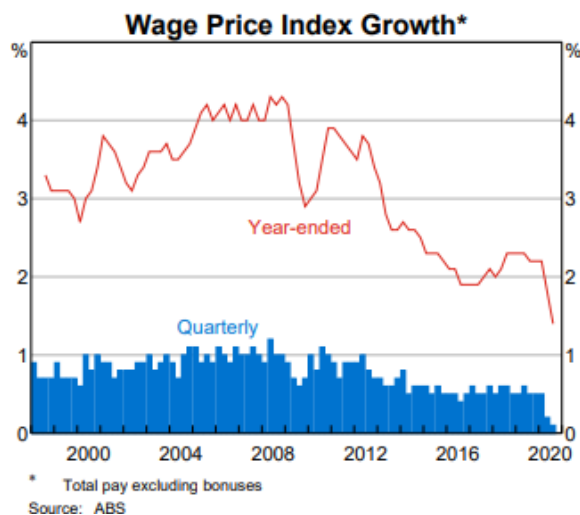
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SECTION A – Multiple Choice

Question 1

Wage Price Index Growth*

* Total pay excluding bonuses
Source: ABS

Consider the Wage Price Index growth above. Which of the following situations would best explain the trend in wages growth over the past 2 years?

- **A.** a decrease in the unemployment rate
- **B.** an increase in the underemployment rate
- **C.** a decrease in the participation rate
- **D.** a depreciation of the AUD

Question 2

An appreciation of the Australian dollar is **least likely** to lead which of the following?

- **A.** a decrease in the competitiveness of Australian producers overseas
- **B.** a decrease in the current account surplus
- **C.** the RBA increasing interest rates
- **D.** an increase in import spending by Australians

Question 3

Consider the market for new cars in Australia.

A shift in the demand curve to the right, is likely to cause the largest increase in price if:

- **A.** cars are durable
- **B.** there are many substitutes for a car
- **C.** a car makes up a large percentage of household income
- **D.** there is no or little spare capacity in the car market

Question 4

Which of the following government interventions will have a different impact to the others?

A. an increase in subsidies to producers
B. an increase in indirect taxes
C. restrictions on consumers
D. rules and regulations for packaging and labelling laws

Question 5

Consider the following hypothetical Consumer Price Index (CPI) data:

Time period	CPI
Jan. 2019	100
Mar. 2019	101
June. 2019	102.1
Sep. 2019	104.5
Jan. 2020	104

Which of the following statements is **not** true?

A. the annualised inflation rate for the June 2019 quarter is 4%
B. the annual rate of inflation for 2019 is 4.5%
C. the annual rate of inflation for 2019 is 4%
D. the quarterly rate of inflation for June 2019 is less than the annual rate

Question 6

Which of the following statements about a contraction in the business cycle is true?

A. it could be caused by a decrease in income tax rates
B. it is usually characterised by high inflation, higher employment, higher economic activity
C. it could be caused by an increase in the relative interest rate in Australia
D. according to the business cycle it is followed directly by an expansion

Question 7

Consider the following hypothetical budget data:

Budget Year	2018	2019	2020
Revenue ($bil)	300	315	315
Expenses ($bil)	330	320	315
Outcome ($bil)	-30	-5	0

Which of the following is the most likely to have occurred as a result of the budget over period 2018-2020?

A. a decrease in government debt and a decrease in economic growth
B. a decrease in government debt and an increase in economic growth
C. an increase in government debt and an increase in economic growth
D. an increase in government debt and a decrease in economic growth

Question 8

Nickel is an input into the production of solar batteries. If there is a slowdown in nickel production due to COVID-19 restrictions, which of the following is likely to occur?

A. an increase in the equilibrium price of solar batteries due to a shift in the supply curve to the right in the market for nickel.

B. an increase in the equilibrium price of solar batteries due to a shift in the supply curve to the left in the market for nickel.

C. an increase in the equilibrium quantity for solar batteries due to a shift in the supply curve to the left in the market for nickel.

D. a decrease in the equilibrium quantity for solar batteries due to a shift in the supply curve to the right in the market for nickel.

Question 9

Consider the PPF below for a hypothetical economy:
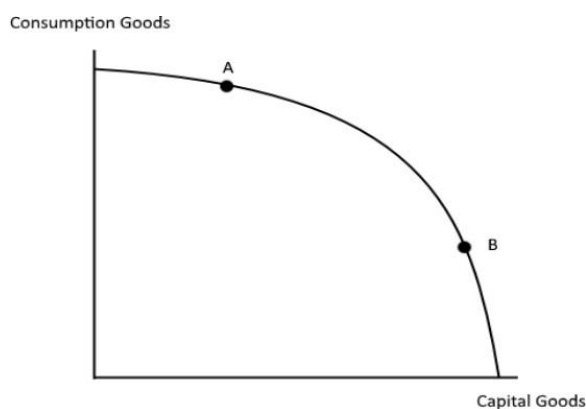
Which of the following statements is **least true** about the move from Point A to B?

A. allocative efficiency is maximized
B. productive efficiency has increased
C. inter-temporal efficiency has increased
D. it illustrates dynamic efficiency

Question 10

If there is a 10% drop in each of the following components of Aggregate Demand, which component would have the largest impact on overall economic growth?

A. private investment spending (I)
B. export spending (X)
C. private consumption spending (C)
D. public current spending (GI)

Question 11

A boom in the Chinese economy is least likely to cause:

   A. a decrease in the Balance of Merchandise Trade (Net Goods) surplus
   B. an increase in the price of commodities like iron ore
   C. an appreciation of the AUD
   D. an increase in Australia's terms of trade

Question 12

Which of the following is an example of hard-core unemployment?

   A. Jen works in an industry that shuts down over the winter and she becomes unemployed.
   B. Joe has been trying to get a job for 12 months. He is disheartened by continued rejections and has stopped looking for work.
   C. David has long term mental health issues that make it hard for him to hold down a job.
   D. Jordan works in the automobile industry in Australia. He has recently lost his job due to factory shutdowns.

Question 13

Net Foreign Liabilities
By type, per cent of nominal GDP

* Short-term includes debt with residual maturity of one year or less; long-term includes all other debt
Source: ABS
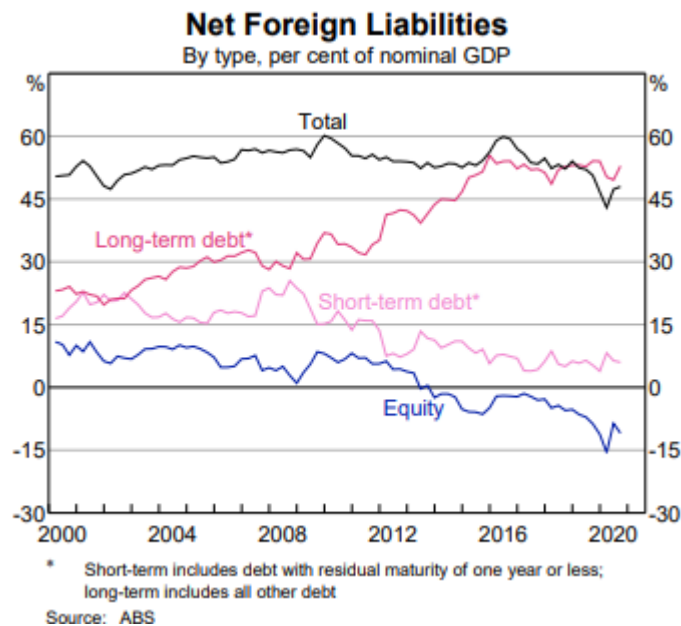
With reference to the graph above and your knowledge of economics, which one of the following statements is **true** in 2020?

   A. Australian's owe more overseas than is owed to Australian's
   B. Long-term debt is less than short-term debt
   C. Australian's own less overseas than foreigners own in Australia
   D. Net Foreign Equity is around 45% of GDP

Question 14

Which of the following is an example of a discretionary budget policy?

   A. an increase in tax revenue due to an improvement in overseas activity
   B. the RBA buying bonds to reduce interest rates
   C. the removal of an income tax bracket
   D. the budget outcome in deficit

Question 15

If the RBA buys government securities (bonds), the effect would be:

   A. an increase in the supply of cash, a decrease in the interest rate and an expansion in economic growth
   B. an increase in the supply of cash, an increase in the interest rate and a contraction in economic growth
   C. a decrease in the supply of cash, an increase in the interest rate and an expansion in economic growth
   D. a decrease in the supply of cash, a decrease in the interest rate and an expansion in economic growth

SECTION B – Written Responses

Instructions for Section B

Answer **all** questions in the spaces provided.

Question 1 (18 marks)

a. Consider the following market data for bananas:

Price (Per Box)	Quantity Demanded (no. of banana boxes)	Quantity Supplied (no. of banana boxes)
$50	1100	300
$80	800	400
$100	700	500
$125	400	600
$150	50	700
$160	0	750

Using the data above construct a fully labelled demand and supply curve. Ensure all aspects of the graphs are labelled appropriately. 4 marks

b. Assume the price of a substitute product for bananas decreases. Draw this scenario on the graph above (part a) and ensure all aspects of the graphs are labelled appropriately. 2 marks

c. Explain how the banana market moves from the original equilibrium (part a) to the new equilibrium (part b). 3 marks

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d. Select **one** of the market failures below:
- Asymmetric Information
- Externalities

Explain how this type of market failure affects the efficiency of resource allocation. 3 marks

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e. Explain how **one** possible government intervention to correct the market failure above (part d) will increase the efficiency of resource allocation. 3 marks

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f. Explain how the intervention above (part e) **or** one other contemporary example of a government intervention in markets will unintentionally lead to a decrease in the efficiency of resource allocation.

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Question 2 (14 Marks)

Labour Underutilisation Rates
Heads-based

* Full-time workers on reduced hours for economic reasons and
  part-time workers who would like, and are available, to work more hours
Source: ABS

a. With reference to the last 2 years, assess the degree to which the Australian Government has achieved its goal of full employment and explain **one** economic reason for the trend in the unemployment rate.

4 marks

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b. Explain how the trend in the unemployment rate (over the past 2 years) may impact the RBA's stance and focus. 3 marks

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c. Explain the limitations the RBA should consider when using the unemployment rate to assess the state of the labour market. 3 marks

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d. Explain the role of automatic stabilisers in the budget on the achievement of full employment over the past 2 years. 4 marks

Question 3 (14 marks)

Terms of Trade Index Australia

a. Referring to the chart above, describe the movement in the Terms of Trade (TOT) over the past year and explain **one** factor which has contributed to this movement. 4 marks

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b. Explain how this movement in the TOT may impact the following: 6 marks

- The current account balance

- Living standards

c. Explain how a move to freer trade may impact Australia's international competitiveness.　4 marks

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Question 4 (19 marks)

Consider the following hypothetical data for Australia's quarterly inflation rate.

Quarterly Inflation rate (Australia)

a. Explain how the RBA may respond to the data above and, using a transmission mechanism, explain how this response would impact the achievement of price stability. 5 marks

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b. Evaluate the effectiveness of budgetary policy over the past 2 years in achieving the government's goal of strong and sustainable growth. 6 marks

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c. Select **one** of the aggregate supply policies below:

- Education and training policy
- Tax and welfare policy
- Immigration policy

Using a contemporary example, explain how the government may utilise this policy to help achieve its goal of strong and sustainable growth. 4 marks

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d. Select a **different** aggregate supply policy from above (part c).
Evaluate the effectiveness of this aggregate supply policy in achieving low inflation.　　4 marks

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END OF QUESTION AND ANSWER BOOK

Extra space for responses

Clearly number all responses in this space.