



**Victorian Certificate of Education
2011**

SUPERVISOR TO ATTACH PROCESSING LABEL HERE

STUDENT NUMBER

Letter

Figures										
Words										

ECONOMICS
Written examination

Thursday 10 November 2011

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	30
B	4	4	60
			Total 90

- 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 of 20 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 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

If the current rate of inflation is at the top of the Reserve Bank of Australia's (RBA) target range, which of the following might cause the RBA to tighten monetary policy?

- A. higher rates of economic growth and increasing rates of unemployment
- B. lower rates of economic growth and decreasing rates of unemployment
- C. lower rates of economic growth and increasing rates of unemployment
- D. higher rates of economic growth and decreasing rates of unemployment

Question 2

The labour force participation rate is

- A. the labour force as a percentage of the working-age population.
- B. the number of unemployed persons as a percentage of the labour force.
- C. the difference between the unemployment rate and the job vacancy rate.
- D. the number of unemployed persons as a percentage of the working-age population.

Question 3

Which combination of factors best explains why the growth in real Gross Domestic Product (GDP) per head has limitations in reflecting changes in living standards?

- i. it takes no account of possible changes in hours worked
- ii. it gives no indication of the distribution of income
- iii. it takes no account of the rate of population growth
- iv. it gives no indication of the types of goods and services produced
- v. it takes no account of the rate of inflation

- A. i, ii and iii
- B. ii, iii and iv
- C. ii, iv and v
- D. i, ii and iv

Question 4

Which of the following might cause an expansion in the supply of bananas along the supply curve?

- A. a rise in interest rates
- B. a rise in income tax rates
- C. an increase in the price of bananas
- D. a cyclone destroys 95 per cent (%) of banana production

Question 5

If the RBA undertakes large sales of securities in the cash market, this will tend to

- A. increase liquidity and decrease interest rates.
- B. increase liquidity and increase interest rates.
- C. decrease liquidity and decrease interest rates.
- D. decrease liquidity and increase interest rates.

Question 6

Monopolistic competition is a market structure in which there is

- A. only one firm.
- B. a small number of firms.
- C. a large number of firms producing an identical product.
- D. a large number of firms producing a differentiated product.

Question 7

Which of the following is likely to make the distribution of income between persons **less** equal?

- A. an increase in the tax on luxury cars
- B. a reduction in the unemployment rate
- C. the removal of a means test on the 'Baby Bonus'
- D. a decrease in the rate for the Goods and Services Tax (GST)

Question 8

Consider the following hypothetical Balance of Payments data.

Current account	\$million
Exports of goods	110 000
Imports of goods	130 000
Net services	-200
Net income	-20 000
Net current transfers	-1 000

The Balance of Payments on current account shows a

- A. deficit of 41 200 million dollars.
- B. deficit of 1 200 million dollars.
- C. surplus of 218 800 million dollars.
- D. surplus of 1 200 million dollars.

Question 9

In a competitive market, an increase in the price of an input used in production will lead to

- A. a higher equilibrium price and a lower equilibrium quantity.
- B. a higher equilibrium price and a higher equilibrium quantity.
- C. a lower equilibrium price and a higher equilibrium quantity.
- D. a lower equilibrium price and a lower equilibrium quantity.

Question 10

In economics, which of the following is an example of investment expenditure?

- A. households purchase government securities
- B. firms purchase new capital equipment
- C. households purchase shares on the stock exchange
- D. firms make compulsory contributions to superannuation funds

Question 11

If A\$1 buys US\$1, and the Australian dollar depreciates by 10 per cent (%) against the US dollar, then after the depreciation A\$1 will buy

- A. US\$0.80
- B. US\$0.90
- C. US\$1.10
- D. US\$1.20

Question 12

If the Formula 1 Grand Prix in Melbourne causes disruption to local traffic and promotes the city of Melbourne overseas, economists will refer to these as examples respectively of

- A. a public good and information asymmetry.
- B. information asymmetry and a public good.
- C. a negative externality and a positive externality.
- D. a positive externality and a negative externality.

Question 13

The effect of a fuel levy on the market for international air flights would be to

- A. shift the supply curve to the left and cause a contraction in supply.
- B. shift the supply curve to the left and cause a contraction in demand.
- C. shift the demand curve to the left and cause a contraction in supply.
- D. shift the demand curve to the left and cause a contraction in demand.

Question 14

A positive balance on merchandise trade in a country's Balance of Payments necessarily implies that

- A. the terms of trade index is higher than the previous year.
- B. more goods are being exported than are being imported.
- C. an improvement has occurred in the balance on current account.
- D. the value of imports of goods is less than the value of exports of goods.

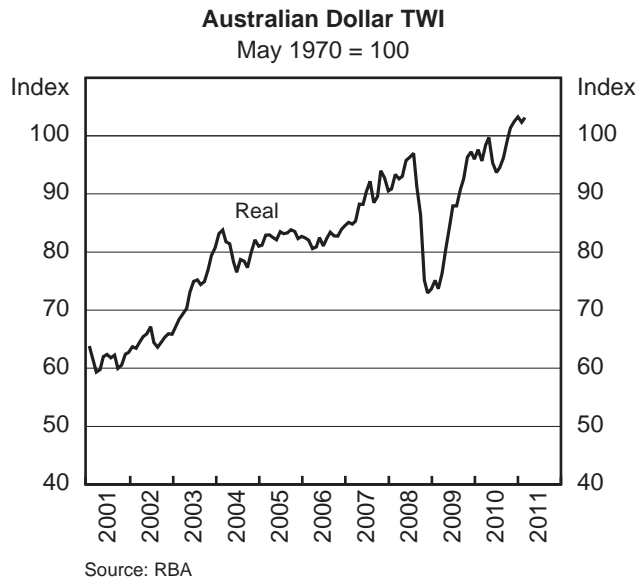
Question 15

Which of the following policy-mix options is likely to be implemented in an effort to decrease demand inflationary pressures in the economy?

- A. an increase in personal income tax rates and an increase in the cash interest rate
- B. a decrease in personal income tax rates and an increase in the cash interest rate
- C. a decrease in personal income tax rates and a decrease in the cash interest rate
- D. an increase in personal income tax rates and a decrease in the cash interest rate

SECTION B – Written responses**Instructions for Section B**

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

Question 1

- a. Describe the trend in the real value of the Australian dollar between 2009 and 2011.

2 marks

b. Outline two factors that might have influenced this trend.

factor 1 _____

factor 2 _____

4 marks

c. Explain how this trend might affect Australia's key economic goals of strong and sustainable economic growth _____

low inflation. _____

6 marks

- c. Explain two government policy actions that might be used to achieve the goal of restoring the budget to surplus in coming years.

policy action 1 _____

policy action 2 _____

6 marks

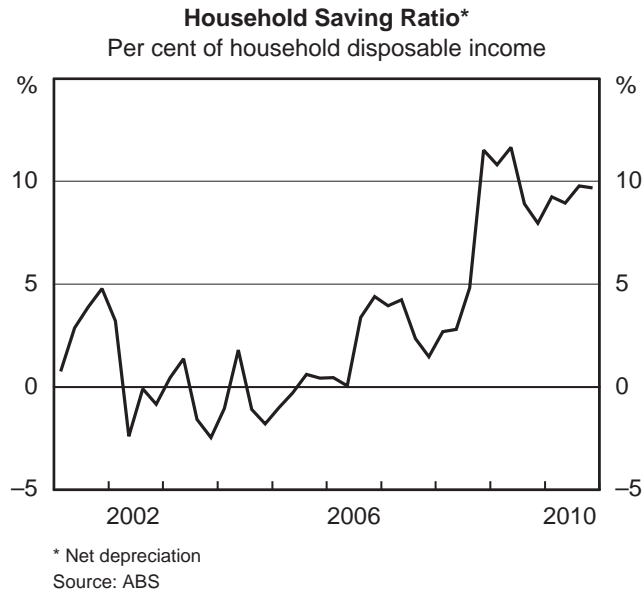
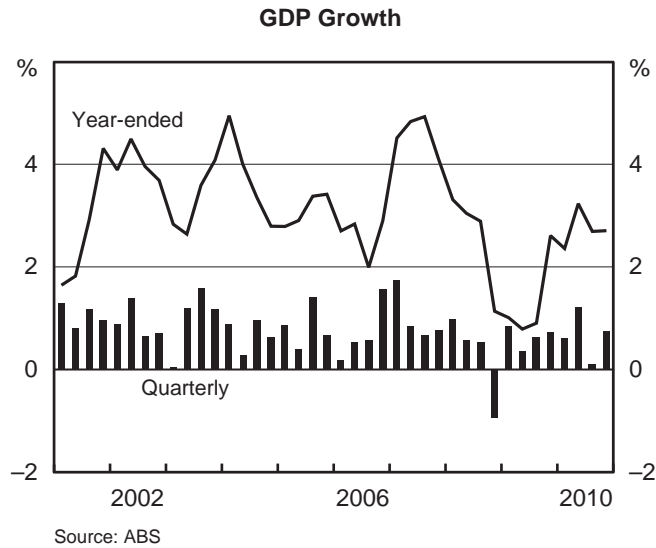
- d.** Severe flooding occurred across Queensland and Victoria in late 2010 and early 2011. Outline a likely effect of this flooding on aggregate demand and another likely effect on aggregate supply.

likely effect on aggregate demand _____

likely effect on aggregate supply _____

4 marks

Question 3



- c. i.** Outline **one** reason why the government might intervene in a competitive market economy to redistribute income.

- ii.** Using **one** example, explain how the government might intervene in a competitive market economy to redistribute income.

2 + 2 = 4 marks

- d.** Select **one** example of a microeconomic reform policy.
Discuss how this policy might affect aggregate supply and external stability.

likely effect on aggregate supply _____

likely effect on external stability _____

6 marks

