**Victorian Certificate of Education
2017**

SUPERVISOR TO ATTACH PROCESSING LABEL HERE

Letter

STUDENT NUMBER

ECONOMICS
Written examination

Thursday 2 November 2017

Reading time: 2.00 pm to 2.15 pm (15 minutes)
Writing time: 2.15 pm to 4.15 pm (2 hours)

QUESTION AND ANSWER BOOK

Structure of book

Section	Number of questions	Number of questions to be answered	Number of marks
A	15	15	15
B	5	5	65
			Total 80

- 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 24 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 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

Relative scarcity can best be defined as

A. wants in relation to needs.

B. wants in relation to resources.

C. unlimited wants in relation to limited resources.

D. limited wants in relation to unlimited resources.

Question 2

Which one of the following might help to reduce a government's budget deficit?

A. a slowing of growth in the world economy

B. reducing the marginal rate of personal income tax

C. removing the means test on some items of government welfare

D. removing the exemptions of education and food from the goods and services tax (GST)

Question 3

Which one of the following is unlikely to increase productivity?

A. increasing tariffs

B. labour skills training

C. innovation in work practices

D. investment in physical capital

Question 4

What would be the effect on the market for Good X if there were a rise in the price of a substitute good?

A. The demand curve would shift left and the equilibrium price of Good X would decrease.

B. The supply curve would shift left and the equilibrium price of Good X would increase.

C. The demand curve would shift right and the equilibrium price of Good X would increase.

D. The supply curve would shift right and the equilibrium price of Good X would decrease.

Question 5

What is the most likely effect of a decrease in the tariff on an imported good?

A. a loss of jobs for overseas suppliers

B. a fall in the price of a competing domestic good

C. a rise in the price of a competing domestic good

D. an increase in employment in the domestic sector

Question 6

Over time, which one of the following would most likely increase aggregate supply in the economy?

A.   reducing the age pension

B.   reducing skilled migration

C.   reducing the retirement age

D.   reducing funding for apprenticeships

Question 7

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

Year	CPI
1	100
2	110
3	121

The increase in the annual rate of inflation from Year 2 to Year 3 is

A.   10%

B.   11%

C.   20%

D.   21%

Question 8

According to the five-sector circular flow model of the economy, a rise in the total value of injections relative to the total value of leakages is most likely to result in

A.   a decrease in consumption and a decrease in levels of aggregate demand.

B.   a decrease in total incomes and a rise in the unemployment rate.

C.   neither a decrease in consumption, levels of aggregate demand and total incomes, nor a rise in the unemployment rate.

D.   a decrease in consumption, levels of aggregate demand and total incomes, and a rise in the unemployment rate.

Question 9

The following information refers to a hypothetical country's terms of trade.

Year	Import price index	Export price index
1	100	100
2	104	117

The change in the terms of trade from Year 1 to Year 2 most likely means that, for this country

A.   the exchange rate will fall.

B.   the current account deficit will rise.

C.   the value of imports is greater than the value of exports.

D.   more imports can be bought with a given volume of exports.

Question 10

The quantity demanded for a product increases by a higher percentage than the decrease in the price of that product.

What is this known as?

A.   demand elasticity

B.   demand inelasticity

C.   supply elasticity

D.   supply inelasticity

Question 11

What name is given to the type of efficiency where resources are reallocated to increase choice and meet the changing tastes and needs of consumers?

A.   dynamic efficiency

B.   allocative efficiency

C.   productive efficiency

D.   intertemporal efficiency

Question 12

Consider the following data relating to a hypothetical country's balance of payments for 2016–2017.

Item	$ billion (b)
net goods	+110
net services	–50
net primary incomes	–90
net secondary incomes	+25

From this data, the balance of payments on current account would be a

A. $15b surplus.

B. $15b deficit.

C. $5b surplus.

D. $5b deficit.

Question 13

As the level of aggregate demand slows, the budget outcome will

A.   improve as unemployment increases.

B.   deteriorate as unemployment increases.

C.   improve as social security payments decrease.

D.   deteriorate as social security payments decrease.

Question 14

When the Reserve Bank of Australia buys government securities on the overnight market, the effect will be to

A.   increase the supply of cash in the money market and increase the cash rate.

B.   decrease the supply of cash in the money market and increase the cash rate.

C.   increase the supply of cash in the money market and decrease the cash rate.

D.   decrease the supply of cash in the money market and decrease the cash rate.

Question 15

Which one of the following is an example of government capital expenditure?

A.   personal income tax refunds

B.   payment of unemployment benefits

C.   provision of transport infrastructure

D.   government loans to tertiary students for university fees

SECTION B – Written responses

<table>
<tr><td>Instructions for Section B</td></tr>
<tr><td>Answer all questions in the spaces provided.</td></tr>
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Question 1 (11 marks)

a. Explain **one** effect of competitive markets on the efficiency of resource allocation.   2 marks

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b. Distinguish between public goods and common access resources.   3 marks

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c.   Identify a recent example of government intervention in markets and explain how it
unintentionally led to a decrease in the efficiency of resource allocation.   3 marks

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d. Select **one** of the following aspects of budgetary policy:
- spending on training and education
- research and development grants
- subsidies

Explain how increased funding on this aspect of budgetary policy might influence aggregate supply and the goal of strong and sustainable economic growth. 3 marks

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Question 2 (9 marks)

Below is a schedule of demand and supply for strawberries during one week in the summer of 2016.

Price (per punnet)	Quantity demanded (no. of punnets)	Quantity supplied (no. of punnets)
$5	140 000	30 000
$8	120 000	50 000
$10	80 000	80 000
$12	60 000	90 000
$14	30 000	110 000

a. Construct a demand and supply curve diagram using the data in the table. Ensure all aspects of the graph are labelled appropriately. 3 marks

b. Assuming the market for strawberries is a perfectly competitive market, identify the
equilibrium price and quantity traded, and explain what is meant by 'equilibrium'.   2 marks

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c. Assume that during the summer there was a period of unseasonably cold weather and the
output of strawberries was negatively affected.

Draw this scenario on the graph in **part a.**, clearly showing the adjustment to the market
conditions.   2 marks

d. Explain the adjustment to the equilibrium price and quantity.   2 marks

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Question 3 (28 marks)

Treasurer Scott Morrison stated in his 2016–2017 Budget speech that the Australian Government has a 'plan for jobs and growth'.

a. Describe the 2016–2017 performance of the Australian economy in terms of 'jobs and growth'. 4 marks

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b. Select **one** of the following aggregate supply policies:
- welfare reform policy
- tax reform policy
- immigration policy

Explain how this policy might be implemented to increase 'jobs and growth'.   4 marks

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c. Select an aggregate supply policy from the list in **part b.** You may use the same policy that you selected in **part b.** or a different policy from the list.

Outline **one** strength and **one** weakness of using this policy to increase employment and rates of economic growth. 4 marks

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d. Explain how aggregate demand policies have influenced 'jobs and growth' in 2016–2017. 8 marks

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e. Evaluate **one** strength and **one** weakness of using each of budgetary policy and monetary policy in achieving increased 'jobs and growth'. 8 marks

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Question 4 (9 marks)

Consumer Price Inflation

Source: adapted from ABS; RBA Chart Pack,
'The Australian Economy and Financial Markets', September 2017, p. 4

a. Referring to the graph above, assess the extent to which Australia has been able to achieve its
    goal of low inflation (price stability) in 2016–2017.   3 marks

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b. Explain **one** economic factor that might have influenced the goal of low inflation (price stability) in 2016–2017.   2 marks

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c. Discuss the likely effect of the behaviour of Consumer Price Inflation on the stance and focus of monetary policy during the past two years.   4 marks

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Question 5 (8 marks)

Current account balance
per cent of nominal GDP
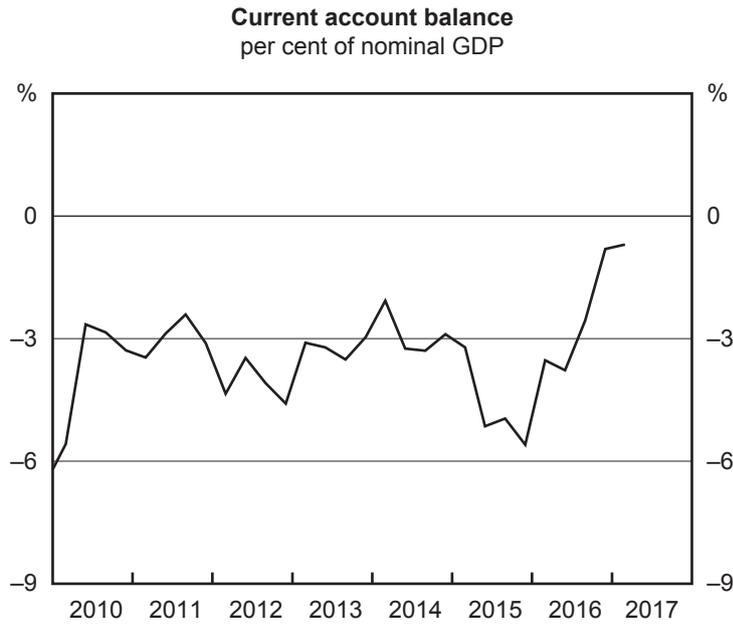

Source: adapted from ABS; RBA Chart Pack,
'The Australian Economy and Financial Markets', September 2017, p. 17

a. Referring to the graph above, outline **one** factor that might explain the trend in Australia's current account balance in 2015–2016 and 2016–2017. 2 marks

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b. Explain the likely effect of trade liberalisation on any **two** of Australia's domestic
macroeconomic goals.   6 marks

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END OF QUESTION AND ANSWER BOOK

Extra space for responses

Clearly number all responses in this space.

An answer book is available from the supervisor if you need extra paper to complete an answer. Please ensure you write your **student number** in the space provided on the front cover of the answer book. **At the end of the examination, place the answer book inside the front cover of this question and answer book.**

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