

**Victorian Certificate of Education
2020**

SUPERVISOR TO ATTACH PROCESSING LABEL HERE

STUDENT NUMBER Letter

ECONOMICS
Written examination

Tuesday 24 November 2020

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

<i>Section</i>	<i>Number of questions</i>	<i>Number of questions to be answered</i>	<i>Number of marks</i>
A	15	15	15
B	4	4	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 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.

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

Which one of the following actions are economists most likely to consider as investment expenditure?

- A. an individual buying shares
- B. a supermarket installing self-serve checkouts
- C. a company paying its workers higher wages
- D. a household purchasing a home entertainment unit

Question 2

Which one of the following is a leakage from the circular flow model of income?

- A. an increase in consumption spending
- B. transfer payments made by the government
- C. an increase in imports
- D. an increase in investment spending

Question 3

Which one of the following best describes the characteristics of a public good?

- A. excludable and rivalrous
- B. excludable and non-rivalrous
- C. non-excludable and rivalrous
- D. non-excludable and non-rivalrous

Question 4

If Australia's foreign equity assets exceed its foreign equity liabilities, this means that

- A. Australia has invested less overseas than foreigners have invested in Australia.
- B. Australia has invested more overseas than foreigners have invested in Australia.
- C. the Australian Government has increased its borrowings from overseas to fund budget deficits.
- D. the Australian Government has decreased its borrowings from overseas to fund budget deficits.

Question 5

The imposition of a tariff would cause which one of the following?

- A. a decrease in the price of imports and a rise in the demand for imports
- B. an increase in the price of imports and a rise in the demand for imports
- C. a decrease in the price of imports and a rise in the demand for import-competing domestic goods
- D. an increase in the price of imports and a rise in the demand for import-competing domestic goods

Question 6

An improvement in Australia's current account balance is most likely to occur when

- A. the trade balance surplus increases.
- B. the terms of trade deteriorate.
- C. the Australian dollar appreciates.
- D. China's economic growth slows.

Question 7

Suppose the Australian Government was paying subsidies to beekeepers.

If the government reduced or removed these subsidies, the most likely effect on the price of honey would be

- A. an increase in price, as there would be an increase in the demand for honey.
- B. a decrease in price, as there would be a decrease in the demand for honey.
- C. a decrease in price, as there would be an increase in the supply of honey.
- D. an increase in price, as there would be a decrease in the supply of honey.

Question 8

Which one of the following is least likely to be an example of a monetary policy transmission mechanism resulting from lower interest rates?

- A. an increase in net capital inflow
- B. an increase in borrowings for housing investment
- C. a decrease in imports resulting from a fall in the value of the Australian dollar
- D. an increase in exports resulting from a fall in the value of the Australian dollar

Question 9

The price elasticity of demand for a product will be greater

- A. the more responsive the industry supply curve is for the product.
- B. the larger the number of substitutes for the product.
- C. the lower the proportion of their income consumers spend on the product.
- D. the more necessary consumers regard the product to be for their consumption.

Question 10

A fall in the equilibrium price but no change in equilibrium quantity could only occur from which one of the following combinations?

- A. a decrease in demand and an increase in supply
- B. an increase in demand and a decrease in supply
- C. a decrease in both demand and supply
- D. an increase in both demand and supply

Question 11

Which one of the following would most likely happen if all countries agreed to significantly reduce carbon emissions by moving towards a greater reliance on renewable energy sources?

- A. The demand for Australian coal would increase and the price received for coal exports would rise.
- B. The demand for Australian coal would decrease and the price received for coal exports would fall.
- C. The demand for Australian natural gas would decrease and the price received for natural gas exports would rise.
- D. The demand for Australian natural gas would increase and the price received for natural gas exports would fall.

Question 12

The labour force under-utilisation rate measures the

- A. unemployed as a percentage of the labour force.
- B. unemployed and underemployed as a percentage of the labour force.
- C. underemployed as a percentage of the population aged 15 years and over.
- D. unemployed and underemployed as a percentage of the population aged 15 years and over.

Question 13

Consider the following hypothetical Australian Government Budget figures.

Item	Amount (billions)
total receipts	\$200
total outlays	\$175
net cash flows from investments in financial assets (IFAPP)	\$10
Future Fund earnings	\$5

What is the size of the underlying cash surplus?

- A. \$10 billion
- B. \$25 billion
- C. \$30 billion
- D. \$40 billion

Question 14

Which combination of aggregate supply policies will have a different overall effect on the goal of full employment than the other combinations given?

- A. an increase in research and development grants, increased spending on training and education, a boost in investment in infrastructure
- B. a reduction in subsidies for infant industries competing with imports, a decrease in spending on training and education, a reduction in investment in infrastructure
- C. a reduction in tariff protection in the economy, a reduction in the personal income tax rates, a reduction in spending on training and education
- D. a move towards free trade, a reduction in the company tax rate, a reduction in research and development grants

Question 15

Which one of the following is the most likely to cause cost inflation?

- A. excess demand for goods and services
- B. the government reducing company tax rates
- C. expectations by employers that interest rates will fall
- D. an increase in superannuation contributions paid by employers

DO NOT WRITE IN THIS AREA

**END OF SECTION A
TURN OVER**

SECTION B – Written responses

Instructions for Section B

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

Question 1 (16 marks)

The lower cash rate has put downward pressure on the exchange rate, which is supporting activity across a range of industries.

Source: statement by Philip Lowe, Governor of the Reserve Bank of Australia,
‘Monetary Policy Decision’, media release, 3 December 2019,
<www.rba.gov.au>

- a. Describe how a lower cash rate in Australia puts downward pressure on the value of the exchange rate and how this might support activity across a range of industries.

4 marks

b. Explain the likely impact of each of the following scenarios on Australia's exchange rate. 6 marks

- There is a favourable movement in the terms of trade.

- There is a slowdown in global economic growth.

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c. Explain how downward pressure on Australia's exchange rate might influence each of the following.

6 marks

- Australia's balance of payments on current account

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- Australia's material and non-material living standards

DO NOT WRITE IN THIS AREA

Question 2 (21 marks)

- a. Describe **two** economic reasons why the Australian Government might find it difficult to achieve a budget surplus in the short to medium term.

4 marks

DO NOT WRITE IN THIS AREA

- c. Describe how **two** discretionary budgetary policy initiatives announced in either 2019 or 2020 might influence aggregate demand and the achievement of the domestic macroeconomic goal of strong and sustainable economic growth.

6 marks

DO NOT WRITE IN THIS AREA

Question 3 (10 marks)

a. Explain the relationship between an efficient allocation of resources and aggregate supply. 4 marks

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- b. Explain how the following aspects of budgetary policy might influence aggregate supply and the achievement of strong and sustainable economic growth.

6 marks

- Spending on training and education _____

- Investment in infrastructure _____

Question 4 (18 marks)

a. Explain the nature of, and conditions for, a perfectly competitive market.

3 marks

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- b. In a competitive market, explain how an increase in demand for a product might result in a change in relative prices, and explain how this would influence resource allocation and living standards.

5 marks

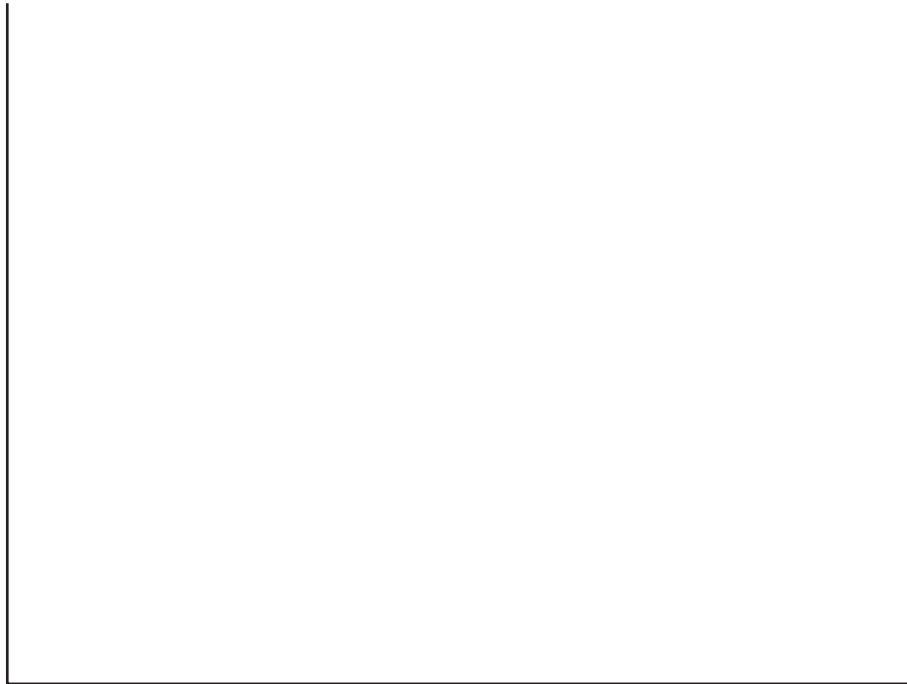
- c. Describe **one** strength and **one** weakness associated with the use of the market to allocate resources.

4 marks

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- d. Using a fully labelled demand and supply diagram, explain how the Australian Government could correct a market failure.

6 marks



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