

Economics Units 3 and 4 practice exam and suggested answers

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The following practice exam for VCE Economics Units 3 and 4 consists of two sections: Section A – multiple-choice questions and Section B – written responses. Section A is worth 15 marks and Section B is worth 65 marks. Suggested answers to this practice exam follow the question and answer book.

All questions are compulsory. The command/task words in each question, the corresponding number of marks allocated and the number of lines provided after each question give a guide to the appropriate length of responses. Additional space is provided at the end of the question and answer book.

Please note that the questions and suggested answers have no official status. Teachers are advised to preview and evaluate all practice exam material before distributing it to students.

Name: _____ Teacher: _____

ECONOMICS UNITS 3 AND 4

Practice written examination 2021

Reading time: 15 minutes

Writing time: 2 hours

QUESTION AND ANSWER BOOK

Structure of book

<i>Sections</i>	<i>Number of questions</i>	<i>Number of questions to be answered</i>	<i>Number of marks</i>
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 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 question number.

Instructions

- Write your name and your teacher's name in the spaces provided above on this page.
- 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.

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

Mineth can make five jumpers or 10 T-shirts per hour. For Mineth, the opportunity cost of making an additional T-shirt is:

- A. half a jumper.
- B. five jumpers.
- C. two jumpers.
- D. two T-shirts.

Question 2

During the recession phase of the business cycle, it would be expected that:

- A. government tax receipts would increase and outlays would increase.
- B. government tax receipts would decrease and outlays would increase.
- C. government tax receipts would increase and outlays would decrease.
- D. government tax receipts would decrease and outlays would decrease.

Question 3

Which of the following would **not** be caused by the removal of a tariff on imports into Australia?

- A. downward pressure on Australian dollar
- B. downward pressure on domestic inflation
- C. downward pressure on Australia's current account surplus
- D. downward pressure on Australia's unemployment rate in the short run

Question 4

Which of the following events is likely to shift the aggregate supply curve to the left?

- A. an increase in interest rates
- B. an increase in consumer confidence
- C. an increase in Australia's labour productivity
- D. an increase in tax incentives for capital investment

Question 5

In the market for bikes, the equilibrium quantity would increase and the equilibrium price would decrease if:

- A. increasing number of Australians choose to ride a bike during the COVID-19 restrictions.
- B. there was a reduction in the cost of aluminium used in the production of bikes.
- C. there are delays in the supply chain for the importing of bikes into Australia.
- D. Australia's population growth rate slows in 2020.

Question 6

The cash flow channel of monetary policy can work to increase aggregate demand by:

- A. encouraging more expenditure in the economy and therefore increasing asset values causing a wealth effect, which encourages more household expenditure.
- B. encouraging households with existing variable interest rate loans to spend more due to increased discretionary income.
- C. enabling more households to meet lending criteria and therefore undertake new loans to increase expenditure.
- D. encouraging households to undertake new loans to increase expenditure.

Question 7

Which of the following is **not** a government intervention into a market to address market failure?

- A. subsidies paid by government to encourage the construction of wind turbines
- B. regulations that do not permit the sale of alcohol to persons aged under 18
- C. social media campaign by supermarkets to encourage reduced food waste
- D. excise taxes on cigarettes

Question 8

Consider the following consumer price index (CPI), Gross Domestic Product (GDP) and unemployment rate data for a hypothetical economy with similar domestic macroeconomic goals to Australia.

Year	GDP growth	CPI growth	Unemployment rate
1	4%	3%	5%
2	6%	5%	3.5%

With reference to the data in the table above, at the end of Year 2, which policy stance would be appropriate for budgetary and monetary policy?

- A. expansionary monetary policy and expansionary budgetary policy
- B. expansionary monetary policy and contractionary budgetary policy
- C. contractionary monetary policy and expansionary budgetary policy
- D. contractionary monetary policy and contractionary budgetary policy

Question 9

Which of the following is **not** a reason for Australia to engage in international trade?

- A. access to high quality manufactured goods that are unable to be produced domestically
- B. downward pressure on cost inflation due to cheaper imported inputs
- C. ability for domestic firms to achieve economies of scale
- D. greater choice for importers of Australian exports

Question 10

The payment of interest to overseas holders of Australian bonds will appear on the balance of payments as a:

- A. debit in the current account.
- B. credit in the current account.
- C. debit in the capital and financial account.
- D. credit in the capital and financial account.

Question 11

The situation where it is not possible to increase output without increasing inputs is referred to as:

- A. dynamic efficiency.
- B. allocative efficiency.
- C. productive efficiency.
- D. inter-temporal efficiency.

Question 12

Which of the following is an example of government current expenditure?

- A. receipt of dividends from the Future Fund
- B. payment to the French Government for a submarine for the Royal Australian Navy
- C. wages paid to Adriana, a nurse working at a COVID-19 vaccination centre in Melbourne
- D. Jobseeker payment paid to Matt, a 40-year-old structurally unemployed university lecturer

Question 13

Which of the following is a way that a government could finance a budget deficit?

- A. increase income tax rates and reduce government expenditure
- B. sell Commonwealth Government Securities to overseas or domestic investors
- C. buy Commonwealth Government Securities from the Reserve Bank of Australia
- D. sell Commonwealth Government Securities to banks to top up the Exchange Settlement Accounts

Question 14

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

- A. increase in the company taxation rate
- B. decrease in the minimum age required to be eligible for the aged pension
- C. decrease in funding for skills training for apprenticeships for 18-25 year olds
- D. increase in eligibility for access for businesses to research and development grants

Question 15

Consider the following information for a hypothetical economy.

Total population	18 million
Unemployed persons	2 million
Employed persons	8 million
Underemployed persons	1 million
Persons over 15 years of age	12million

Based on the data above, the labour force underutilisation rate is:

- A. 20%.
- B. 10%.
- C. 30%.
- D. 12.5%.

END OF SECTION A

SECTION B: WRITTEN RESPONSES

Instructions for Section B

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

Question 1 (13 marks)

The Australian Government is building on its 10-year infrastructure program by committing an additional \$15.2 billion to infrastructure projects over the next 10 years, which will support more than 30 000 jobs over the lives of those projects. This builds on the 100 000 jobs already being supported by projects currently under construction through the existing pipeline.

Source: Budget 2020–21, Securing Australia’s recovery, Commonwealth of Australia, page 21, https://budget.gov.au/2021-22/content/download/glossy_overview.pdf

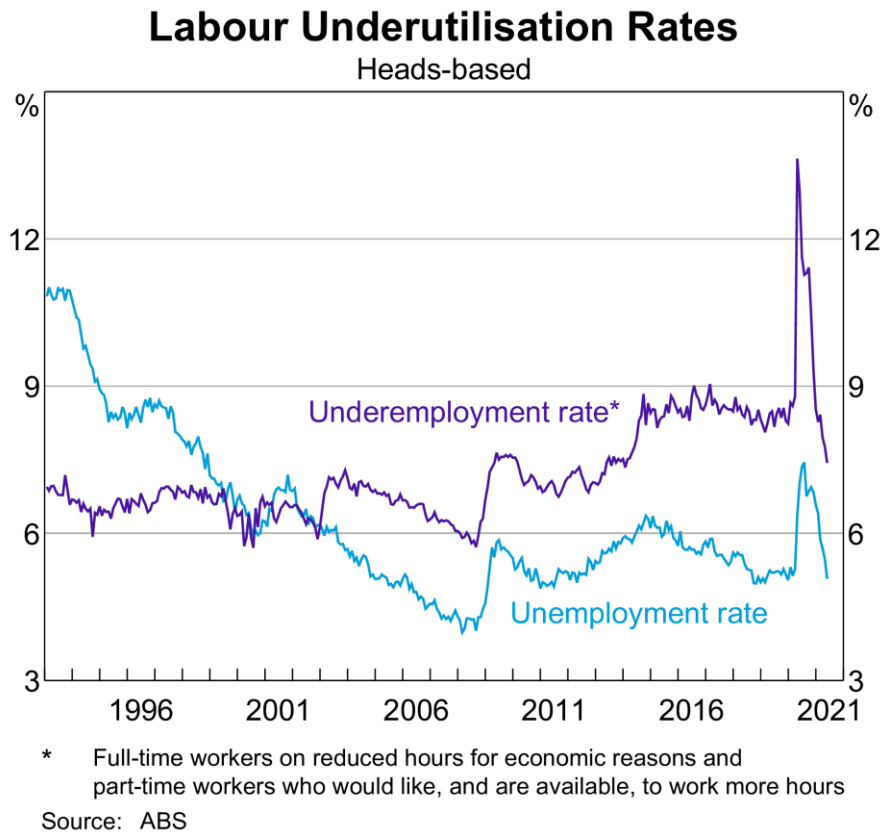
a. Outline **two** aims of aggregate supply policies. 4 marks

In early 2020, the Australian Government responded to the threat of COVID-19 by closing the border for non-residents/non-citizens. This resulted in a dramatic fall in permanent and temporary workers participating in Australia’s labour market.

- c. Discuss how the Australian Government’s decision to restrict migration to Australia could impact on Australia’s labour market. 4 marks

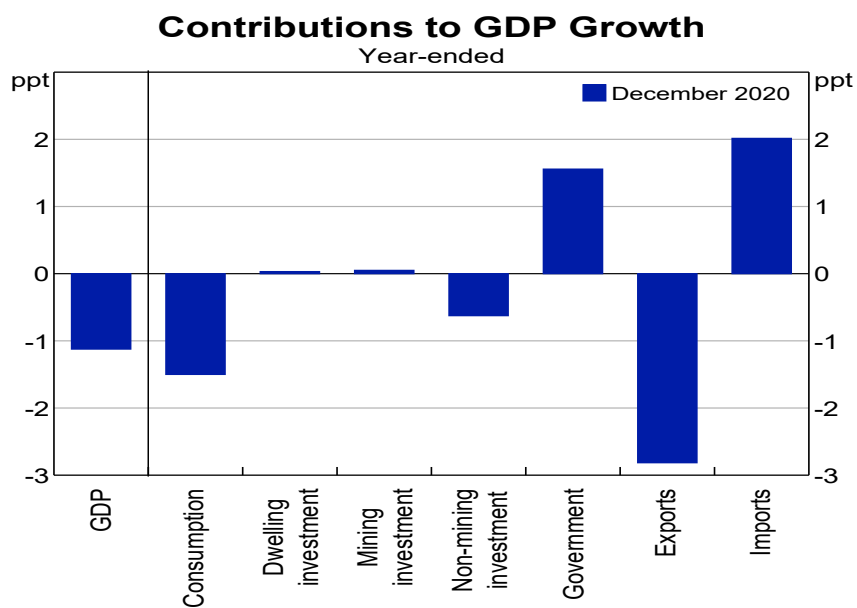
Question 2 (9 marks)

FIGURE 1: LABOUR UNDERUTILISATION RATES



Source: 'Factors of production and labour market', *Chart Pack*, Reserve Bank of Australia, 29 July 2021, <https://www.rba.gov.au/chart-pack/factors-prod-labour-mkt.html>

FIGURE 2: CONTRIBUTIONS TO GROSS DOMESTIC PRODUCT GROWTH



Source: 'Australian growth', *Chart Pack*, Reserve Bank of Australia, June 2021, <https://www.rba.gov.au/chart-pack/au-growth.html>

- a. Referring to Figure 1, explain how the trend in the unemployment rate and underemployment rate in 2021 might influence non-material living standards. 3 marks

- b. Referring to Figure 2, explain how an aggregate demand (AD) factor may have influenced the Consumption component of AD in 2020. 2 marks

Aggregate demand factor: _____ impacting Consumption

- c. With reference to Figures 1 and 2, assess whether the Australian Government has achieved its domestic macroeconomic goals of strong and sustainable economic growth, and full employment in 2020. 4 marks

Question 3 (20 marks)

In the past two years, Australian workers have experienced very low growth in annual wages.

- a. Explain how low wage growth might have influenced the stance on monetary policy in 2021. 3 marks

- b. Explain how the exchange rate transmission mechanism channel of monetary policy can operate to affect the level of aggregate demand (AD) and the rate of economic growth, following the cuts to the target cash rate in 2020. 3 marks

TABLE 1: BUDGET AGGREGATES AND MAJOR ECONOMIC PARAMETERS

	Actual	Estimates					Total
	2019–20	2020–21	2021–22	2022–23	2023–24	2024–25	
Underlying cash balance (\$b)	-85.3	-161.0	-106.6	-99.3	-79.5	-57.0	-342.4
Per cent of GDP	-4.3	-7.8	-5.0	-4.6	-3.5	-2.4	
Gross debt	684.3	829.0	963.0	1058.0	1134.0	1199	
Per cent of GDP	34.5	40.2	45.1	48.6	49.7	50.0	
Net debt	491.2	617.5	729.0	835.0	920.4	980.6	
Per cent of GDP	24.7	30.0	34.2	38.4	40.4	40.9	

	Outcomes	Estimates				
	2019–20	2020–21	2021–22	2022–23	2023–24	2024–25
Real GDP	-0.2	1 ¼	4 ¼	2 ½	2 ¼	2 ½
Employment	-4.2	6 ½	1	1	1 ¼	1 ¼
Unemployment rate	6.9	5 ½	5	4 ¾	4 ½	4 ½
Consumer price index	-0.3	3 ½	1 ¼	2 ¼	2 ½	2 ½
Wage price index	1.8	1 ¼	1 ½	2 ¼	2 ½	2 ¾
Nominal GDP	1.7	3 ¾	3 ½	2	4 ¾	5

Source: *Budget 2020–21, Securing Australia’s recovery*, Commonwealth of Australia, page 6, https://budget.gov.au/2021-22/content/download/glossy_overview.pdf

c. Referring to Table 1, identify the outcome of the 2021–22 Budget and outline its stance.

2 marks

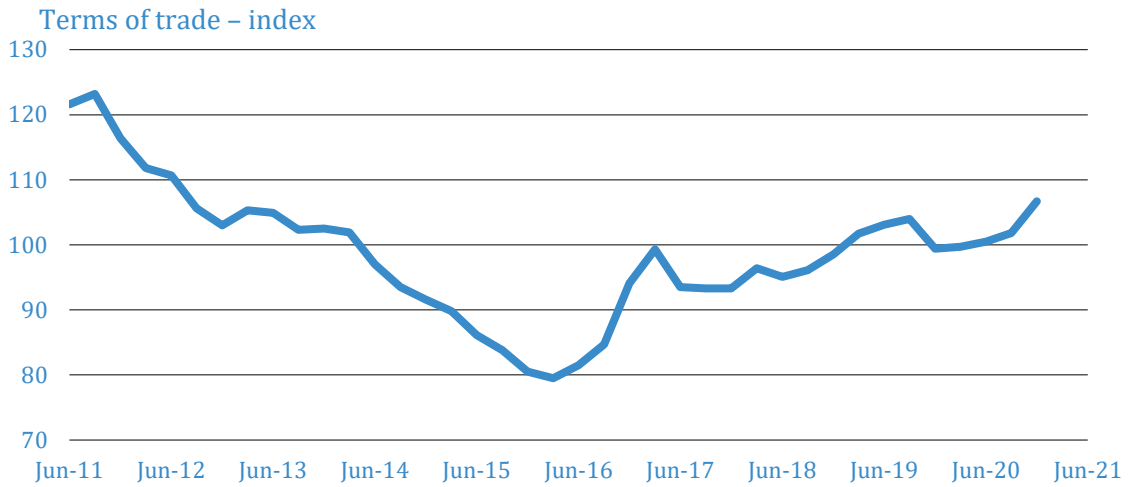
- d. Explain the importance of the major economic parameters (forecasts) in determining estimated budget outcomes. Refer to the data contained in Table 1 in your response. 2 marks

- e. Describe how the outcome of the 2021–22 Budget would impact on the level of government (public) debt. 2 marks

- f. Evaluate the effectiveness of using budgetary policy to support economic growth during 2020. Refer to the data contained in Table 1 in your response. 8 marks

Question 4 (10 marks)

FIGURE 3: AUSTRALIA'S TERMS OF TRADE INDEX



Source: *Monthly statistical bulletin*, Parliament of Australia, June 2021, https://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/pubs/MSB

- a. With reference to Figure 3, describe the trend in the terms of trade from June 2018 to March 2021. 2 marks

- b. Predict how the trend in Australia's terms of trade might impact on the Australian dollar, rate of economic growth and material living standards. 5 marks

c. Distinguish between the terms trade liberalisation and barriers to trade. 3 marks

Question 5 (13 marks)

Australian house prices have risen quickly since the second half of 2020 and continued to rise in the early months of 2021 after the initial shock of the COVID-19 restrictions came into force in March 2020. Real estate agents are highlighting a combination of strong buyer demand and limited supply contributing to the pressure on prices. In June 2021, the New South Wales (NSW) Government responded to higher house prices by proposing generous grants of up to \$25 000 for first home buyers.

- a. Describe **one** demand factor and **one** supply factor that could have led to an increase in the price of housing in late 2020 and early 2021. 4 marks

Demand factor: _____

Supply factor: _____

- b. On a fully labelled demand and supply diagram for the market for housing, illustrate how an increase in demand for housing since the second half of 2020 might influence the market for housing. 3 marks



- c. Referring to **one** factor influencing price elasticity of demand, explain why the demand for buying a house is likely to be price elastic. 3 marks

d. Explain how a recent government intervention has led to, or could result in, an unintentional decrease in the efficiency in resource allocation. Your answer can relate to the NSW Government's first homebuyers grant **or** another example of government intervention.

3 marks

Economics Units 3 and 4 practice exam 2021

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