VOYEDGE

ECONOMICS
Unit 3&4 Examination 1

Reading time: 15 minutes
Writing time: 120 minutes

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	4	4	65
			Total 80

- Students are to write in blue or black pen.
- 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 permitted.

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.

Instructions
- Write your **name** in the space provided above on this page.
- All written responses must be in English.

Students are NOT permitted to bring mobile phones and/or any other unauthorised electronic devices into the 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 of that best answers the question

Correct answers score 1, while incorrect answers score 0

No marks will be deducted for incorrect answers

No marks will be given if more than one answer is given for any question.

Question 1

According to the circular flow model, which of the following would lead to the largest increase in the level of income in the circular flow of income for an economy?

A. Equal increases in injections and leakages.

B. A large increase in injections and a small increase in leakages.

C. A small decrease in injections and a large increase in leakages.

D. A large increase in injections and a large decrease in leakages.

Question 2

Imagine Australian households experience a decrease in disposable income. Which of the following effects is most likely to occur?

A. An increase in economic growth

B. A decrease in net export demand

C. A decrease in consumption demand

D. A decrease in the unemployment rate

Question 3

Which of the following is most likely to have caused a decrease in interest rates in Australia?

A. The Reserve Bank of Australia (RBA) implements contractionary monetary policy.

B. The RBA buys government securities in the overnight money market.

C. The Australian Federal Government introduces tax offsets for low-income earners.

D. The Victorian Government invests $500 million in new infrastructure projects.

Question 4

Which of the following is an argument for trade protectionism rather than for free trade?

  A. Specialisation and trade can lead to more production and consumption in total.

  B. Larger markets enable firms to experience greater economies of scale.

  C. Cooperation between countries has political benefits.

  D. Infant industries need support to grow to a size to compete internationally.

Question 5

Which of the following scenarios could possibly lead to a rise in equilibrium price but no change to equilibrium quantity in a market?

  A. An increase in demand and a decrease in supply.

  B. A decrease in demand and a decrease in supply.

  C. An increase in demand and an increase in supply.

  D. A decrease in demand and an increase in supply.

Question 6

Which of the following accurately describes an effect of the saving and investment channel of monetary policy transmission when contractionary policy is implemented?

  A. Businesses will increase their volume of lending, leading to demand inflation.

  B. Households will have greater incentive to save, limiting demand inflation.

  C. Households will have more disposable income to spend on goods and services, leading to demand inflation.

  D. Businesses will make larger profits, leading to less cost inflation.

Question 7

Which of the following statements is **incorrect**?

A. Without government intervention, products with negative externalities will be oversupplied by the market.

B. Governments can influence supply of products with positive externalities by offering subsidies to suppliers.

C. Governments can influence demand of products with positive externalities by offering subsidies to suppliers.

D. An indirect tax on a product with negative externalities will encourage its production and consumption.

Question 8

Christine and Alex buy a newly-built home to live in together. This spending would be included in Gross Domestic Product (GDP) as:

A. Household consumption

B. Private investment

C. Non-market activity

D. Both B and C

Question 9

If the price elasticity of supply for a product is highly inelastic, it could be that:

A. the product is extremely durable.

B. there is a very long timeframe available.

C. firms do not have sufficient spare capacity.

D. the price of the product is too high.

Question 10

A deterioration in Australia's terms of trade:

A. will result in a smaller current account deficit or a larger current account surplus.

B. means less of Australia's exports must be sold to purchase the same quantity of imports.

C. will likely lead to an improvement in economic growth.

D. can be caused by falling global demand for Australia's major exports.

Question 11

Which of the following combinations of policies would likely have the largest positive effect on the goal of full employment?

A. An increase in subsidies for infant industries and a decrease in research grants for private industries.

B. Removal of training subsidies for firms and trade liberalisation policies.

C. Increased spending on training and education and increased subsidies for infant industries.

D. An increase in research and development grants and decreased spending on infrastructure.

Question 12

Which of the following is most likely to help return Australia's budget to surplus?

A. An increase in export prices

B. Slow wages growth

C. Higher interest rates

D. Lower business confidence levels

Question 13

A situation in which society's scarce resources are utilised to produce the goods and services most desired by consumers is best known as:

A. Comparative advantage

B. Allocative efficiency

C. Intertemporal efficiency

D. Maximum productive capacity

Question 14

Refer to Table 1.

Table 1: Population, labour force and employment data for a hypothetical economy

Working age population	6 million
Labour force	4.3 million
Employed people	4.1 million
Underemployed people	0.8 million

Which of the following statements is **incorrect** in relation to the above hypothetical economy?

A. The labour force participation rate is greater than the unemployment rate

B. The underutilisation rate is 28%

C. The unemployment rate is approximately 4.6%

D. There are more underemployed people than unemployed people.

Question 15

A decrease in net export demand could possibly cause:

A. An increase in a current account deficit.

B. A decrease in a current account surplus.

C. A decrease in net total accumulated foreign debt.

D. Both A and B.

SECTION B – Written responses

Instructions for Section B
Answer **all** questions in the space provided

Question 1 (15 marks)

In March 2020, the World Health Organisation (WHO) declared COVID-19 a pandemic. The WHO recommended people wash their hands regularly and use hand sanitiser when soap was not available. In Melbourne and other cities around the world, hand sanitiser became scarce and businesses tried to increase its production.

a. Using a fully labelled demand and supply diagram, explain the effect of the above scenario on resource allocation, and on the price and quantity traded of hand sanitiser.   6 marks

b. Outline **two** reasons why the demand for hand sanitiser is likely inelastic.   4 marks

c. Explain the market failure in relation to hand sanitiser and outline **one** suggestion for government intervention that could help minimise the problem.   5 marks

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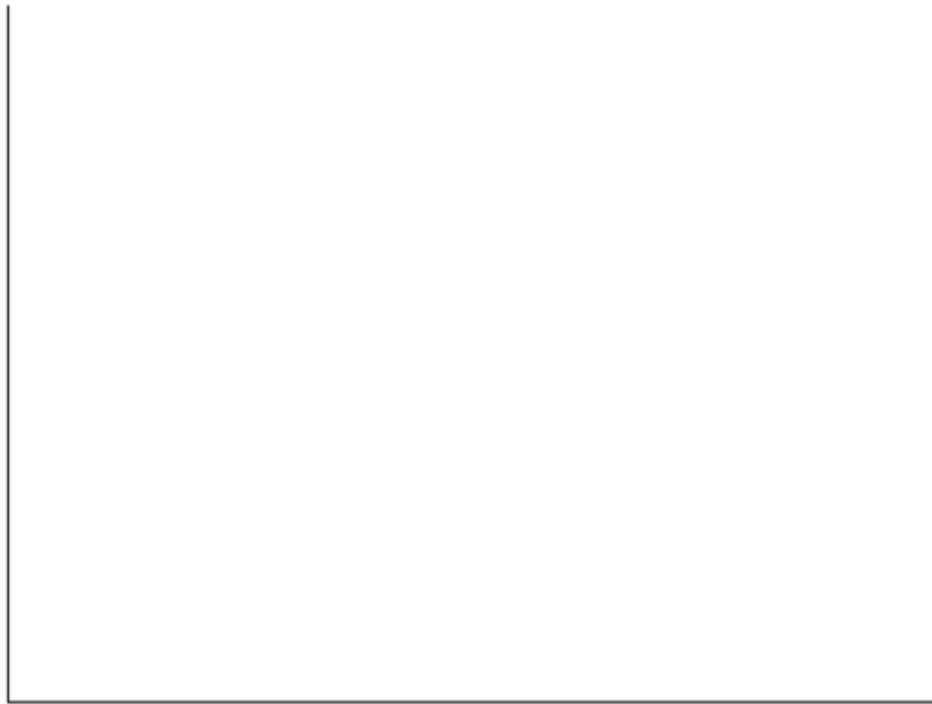
Question 2 (17 marks)

> 'The economic recovery in Australia is well under way and is stronger than had been expected. The unemployment rate fell to 5.8 per cent in February and the number of people with a job has returned to the pre-pandemic level… Nevertheless, wage and price pressures are subdued and are expected to remain so for some years. The economy is operating with considerable spare capacity and unemployment is still too high. It will take some time to reduce this spare capacity and for the labour market to be tight enough to generate wage increases that are consistent with achieving the inflation target. In the short term, CPI inflation is expected to rise temporarily because of the reversal of some COVID-19-related price reductions. Looking through this, underlying inflation is expected to remain below 2 per cent over the next few years.'
>
> *Source: statement by Philip Lowe, Governor of the Reserve Bank of Australia,*
> *'Monetary Policy Decision', media release, 6 April 2021.*
> *<www.rba.gov.au>*

a. Outline which phase of the business cycle Australia was likely in during February 2021 by referring to the above statement from Philip Lowe.   2 marks

b. Describe two types of unemployment that likely existed in Australia in 2020.   4 marks

c. Explain how the economy can still be operating with significant spare capacity even though the unemployment rate fell in February.   2 marks

d. By referring to a specific channel of transmission, explain how an expansionary monetary policy stance influences aggregate demand and the value of the Australian dollar.   4 marks

e. Discuss the reasons for the Reserve Bank of Australia's (RBA's) monetary policy stance since the start of 2020, with reference to the RBA's charter.   5 marks

Question 3 (15 marks)

> 'Growth in resource exports, in both value and volume terms, have been led by iron ore exports. Robust demand from Chinese steel producers and supply disruptions in Brazil have supported high prices and export volumes over 2020 and the start of 2021.'
>
> *Source: RBA Submission to the Inquiry into the Prudential Regulation of Investment in Australia's Export Industries*
> *Joint Standing Committee on Trade and Investment Growth*
> *23 March 2021*
> *<www.rba.gov.au>*

a. Outline how two factors have led to changes in Australia's iron ore export volumes and prices.

4 marks

b. Explain how the changes in the market for iron ore would likely influence the following for
Australia.   6 marks

(i)   The balance of payments

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(ii)   The exchange rate

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(iii)   The terms of trade

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c. Discuss the effectiveness of trade liberalisation in achieving improvements in living standards for Australians.   5 marks

Question 4 (18 marks)

a. Explain how each of the following factors can possibly influence Australia's goal of strong and sustainable growth.   4 marks

(i) An improvement in business confidence

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(ii) A decrease in skilled migrants

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b. Outline the role of budgetary policy in Australia and describe two specific examples of how the
Australian government has used budget initiatives during the COVID-19 pandemic.   6 marks

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c. Describe two specific aggregate supply policies announced or implemented by the Australian government during the past two years.   4 marks

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d. Evaluate the use of budget deficits to avoid recessions.   4 marks

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Extra space for responses

Clearly number all responses in this space

MULTIPLE CHOICE ANSWER SHEET

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