



Letter

Figures										
Words										

Name _____

VCE ECONOMICS UNIT 3/4

CPAP Practice Examination A 2023

Reading time: 15 minutes

Writing time: 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	3	3	65
			Total 80

- Students are permitted to bring into the practice examination: 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.
- A scientific calculator is allowed in this examination

Materials supplied

- Question and answer book of 21 pages.
- Answer sheet for multiple choice questions (page 22).
- Additional space is available at the end of the book if you need extra paper to complete an answer

Instructions

- Write your **student number** and **name** in the space provided above on this page.
- Check that your **name** and student number are written on your multiple choice answer sheet.
- All written responses must be in English.

At the end of this 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

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 the **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

The differences between real income and disposable income is best summed up as follows:

- A. Real income represents the purchasing power of income whereas disposable income represents income after paying interest on loans
- B. Real income represents income after taking inflation into account whereas disposable income represents income after taking taxes into account
- C. Real income represents income less taxes whereas disposable income represents income less inflation
- D. Real income represents income less direct taxes whereas disposable income represents income less indirect taxes

Question 2

The price elasticity of demand is likely to be highest for:

- A. Fuel for a motor vehicle
- B. A holiday package to Bali
- C. A 500g packet of sugar
- D. A tractor

Question 3

Which of the following goods or services is not likely to be considered a public good?

- A. Prison services
- B. Defence services
- C. Lighthouse services
- D. Education services

Question 4

With respect to the Financial Account of Australia's Balance of Payments, Credits will tend to rise when:

- A. the Government budget deficit increases
- B. the household savings ratio increases
- C. the terms of trade increases
- D. Australia enjoys a large increase in productivity

Question 5

Material living standards are likely to fall and non-material living standards are likely to rise if:

- A. access to goods and services rises and pollution increases
- B. climate change accelerates and more goods and services are produced
- C. literacy rates fall and crime rates decrease
- D. real GDP per capita declines and air quality improves

Question 6

The recent Budget, handed down in May 2023, estimated that the budget outcome for 2022-23 would be \$4.2 billion surplus. However, by late July 2023, the surplus is now estimated to be approximately \$20 billion. Which of the following statements is most accurate in relation to the information above?

- A. The structural component of the budget has improved and the level of gross government debt is likely to fall
- B. The cyclical component of the budget has improved and the level of gross government debt is likely to fall
- C. The cyclical component of the budget has improved and the level of gross government debt is likely to rise
- D. The structural component of the budget has improved and the level of gross government debt is likely to rise

Question 7

Assume that the government's budget figures for a particular year included the following:

	\$ billion
Cash receipts	100
Cash payments	120
Receipts from sale of assets for policy purposes (e.g. sale of a Government Business Enterprise)	7
Payments for financial assets for policy purposes (e.g. investment in the NBN Co)	12

Which statement below is accurate:

- A. The headline budget outcome is a deficit of \$20 billion and the underlying budget outcome is a deficit of \$15 billion
- B. The headline budget outcome is a deficit of \$20 billion and the underlying budget outcome is a deficit of \$25 billion
- C. The headline budget outcome is a surplus of \$20 billion and the underlying budget outcome is a deficit of \$15 billion
- D. The headline budget outcome is a surplus of \$20 billion and the underlying budget outcome is a deficit of \$25 billion

Question 8

Carefully analyse the key labour market statistics below, taken from the ABS' June release of 'Labour Force, Australia'

Key labour force statistics – June 2023

Employed people	14,045,800
Unemployed people	505,500
Unemployment rate	3.5%
Underemployment rate	6.4%
Participation rate	66.8%

Source: Australian Bureau of Statistics, Labour Force, Australia June 2023

Which of the following statements is false?

- A. The labour force underutilisation rate is 9.9%
- B. The size of the working age population is 14,551,300 people
- C. The number of people working more than 1 hour per work is 14,045,800
- D. The number of people underemployed is 931,283

Question 9

Australia's inflation rate was 0.8% for the June quarter of 2023, down from a rate 1.4% for the March quarter. This means during the June quarter of 2023:

- A. household purchasing power over goods and services decreased
- B. consumers will be able to afford more goods and services
- C. the consumer price index decreased
- D. the prices of goods and services decreased on average

Question 10

Which of the following is least likely to represent a benefit for Australia of engaging in international trade of goods and services?

- A. lower prices
- B. more choice for consumers
- C. more access to productive resources
- D. lower wages

Question 11

Which of the following is not an example of the use of unconventional monetary over the past couple of years?

- A. An increase in the cash rate by 12 times in the space of 13 months
- B. Purchases of bonds by the RBA designed to reduce longer term interest rates
- C. Forward guidance by the RBA to create certainty about the direction of interest rates
- D. The establishment of a term funding facility for the banking system

Question 12

Which of the following is not an aggregate demand or aggregate supply factor that contributes to lower growth in average prices of goods and services over time?

- A. Growth in productivity
- B. A rise in the price of a complementary good or service
- C. A reduction in consumer confidence levels
- D. Lower rates of economic growth overseas

Question 13

In terms of the structural component of the budget and the structural component of the current account, which of the following statements is correct?

- A. An increase in international competitiveness will tend to reduce the structural component of the current account deficit but have no direct impact on the structural budget deficit
- B. An increase in productivity will tend to reduce the structural budget deficit but have no direct impact on the structural component of the current account
- C. An increase in the rate of growth in national spending will tend to reduce the structural component of the current account deficit and reduce the structural budget deficit
- D. An increase in the rate of unemployment will tend to increase the structural component of the current account deficit and increase the structural budget deficit

Question 14

The temporary reduction in excise tax on fuel, such as that introduced for six months during 2022, will tend to:

- A. Increase inflation as people have more disposable income and spend more on goods and services
- B. Increase inflation as people have more discretionary income and spend more on goods and services
- C. Decrease inflation as costs of production for businesses fall
- D. Decrease inflation as households and businesses spend less on goods and services

Question 15

The income and substitution effect in economics helps to explain why:

- A. the demand curve shifts to the right when the price of a good or service falls
- B. there is an expansion along the demand curve when the price of a good or service falls
- C. there is a contraction along the demand curve when the price of a good or service falls
- D. there is an expansion along the supply curve when the price of a good or service rises

SECTION B

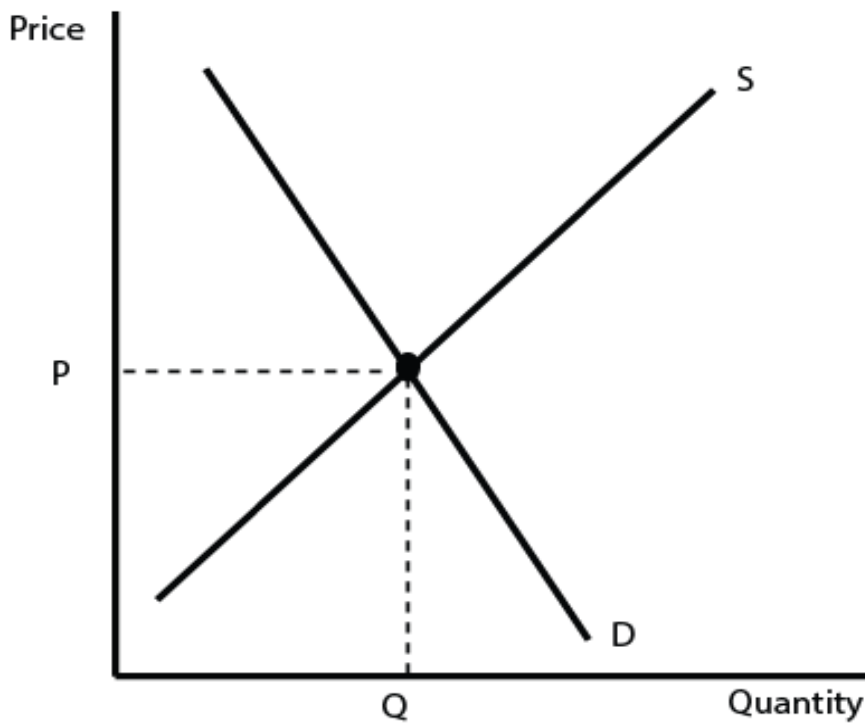
Question 1 (22 marks)

The stage 3 tax cuts were legislated in 2018 and are set to come into effect for the next financial year (2024-25). They will see everyone earning between \$45,000 and \$200,000 paying 30 per cent in tax and is estimated to result in forgone government revenue of approximately \$240 billion over 10 years.

- a. Explain how a decrease in personal income tax rates can cause a movement along the supply curve for a good like an electric motor vehicle. In your answer, use the diagram below to illustrate and make reference to the profit motive.

5 marks

Electric vehicle



- c. Making reference to 'market failure', outline a rationale for the provision of a subsidy to producers of electric vehicles (or any other good or service).

4 marks

Question 3 (17 marks)

a. Define the non-accelerating inflation rate of unemployment (NAIRU)

2 marks

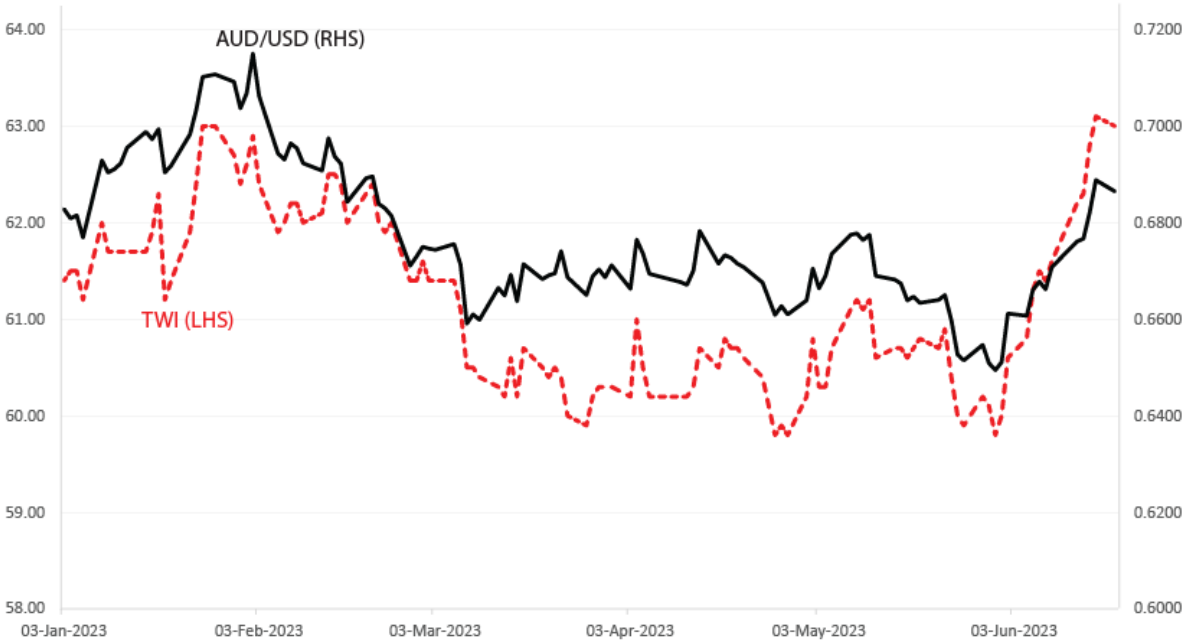
b. Explain the implications for each of the following if the rate of unemployment falls below the NAIRU:

- i. monetary policy settings
- ii. the cyclical component of the budget

5 marks

Question 4 (12 marks)

Australian exchange rate - AUD/USD and Trade Weighted Index



a. Interpret the above chart to provide evidence supporting the claim that the Australian exchange rate has depreciated since February 2023.

2 marks

b. Explain how a decrease in Australia’s credit rating from its relatively high AAA level might influence Australia’s exchange rate.

3 marks

c. Explain why a depreciation of the Australian exchange rate might contribute to lower growth in Net Foreign Debt (NFD). In your answer, refer to the current account balance.

3 marks

d. Outline why a higher current account deficit (CAD) might not lead to an increase in Net Foreign Debt (NFD)

2 marks

e. Describe how a depreciation of the Australian exchange rate will contribute to cost inflation.

2 marks

COMMERCE PRESENTATIONS AND PUBLICATIONS



VCE ECONOMICS 3/4 Practice Examination A 2023

Multiple choice answer sheet

Student Name _____

Answer the 15 questions by shading only one box (either A, B, C, or D) in each of the 15 rows below:

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