



Victorian Certificate of Education 2002

ECONOMICS

Written examination

Wednesday 6 November 2002

Reading time: 3.00 pm to 3.15 pm (15 minutes)

Writing time: 3.15 pm to 5.15 pm (2 hours)

QUESTION 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>	<i>Suggested times (minutes)</i>
A	15	15	30	30
B	3	3	60	90
			Total 90	120

- 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 book of 7 pages.
- Answer sheet for multiple-choice questions.
- One or more script books.

Instructions

- Write your **student number** in the space provided on the front page(s) of the script book(s).
- 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 all other used script books and the answer sheet for multiple-choice questions inside the front cover of the first script book.
- You may keep this question book.

Students are NOT permitted to bring mobile phones and/or any other electronic communication devices into the examination room.

SECTION A – Multiple-choice questions**Instructions for Section A**

Answer all questions in pencil on the answer sheet for multiple-choice questions.

A correct answer scores 2, an incorrect answer scores 0. Marks will **not** be deducted for incorrect answers. No marks will be given if more than one answer is shown for any question.

Question 1

Highly skilled, professional musicians generally earn more than farmers and factory workers.

This is most probably because

- A. musicians are really entertainers rather than producers.
- B. skilled musicians are scarcer, given the demand for their services.
- C. musicians are more likely to operate in a deregulated labour market.
- D. there are fewer professional musicians than farmers or factory workers.

Question 2

The Melbourne City Council wants to build a new park for skateboard riders.

The **opportunity cost** of building the skate park is the

- A. monetary cost of the new skate park.
- B. cost of supervising skate park activities.
- C. cost of building the skate park now as opposed to building the skate park later.
- D. next best alternative goods or services that must be given up to build the skate park.

Question 3

The Australian Government banned the advertising of cigarettes in the electronic media (television and radio) in 1976. Advertising of cigarettes in magazines was not included in the ban.

After the ban had taken effect, you would have expected to find that the price of magazine advertisements

- A. for all goods fell.
- B. for all goods rose.
- C. for only cigarettes fell.
- D. for only cigarettes rose.

Question 4

The degree of price elasticity of demand is important to producers because it reveals

- A. how much of the product will be supplied at different prices.
- B. how responsive the quantity demanded is to a small change in price.
- C. how responsive the quantity demanded is to a small change in levels of income.
- D. how responsive the demand for a product is to advertising and promotion campaigns.

Question 5

Efficiency in the allocation of resources means

- A. avoiding fluctuations in the level of economic activity.
- B. producing a fairer and more efficient distribution of income and wealth.
- C. achieving a particular arrangement of productive resources that will maximise the satisfaction of consumer wants.
- D. achieving at the same time full employment of productive resources, price stability and sustainable economic growth.

Question 6

Which one of the following events is likely to have a different effect on cyclical unemployment than the other events listed?

- A. increasing infrastructure expenditure
- B. increasing marginal income tax rates
- C. increasing interest rates on home and motor vehicle loans
- D. reduced consumer spending as a consequence of ongoing international terrorism

Question 7

Which one of the following pairs of economic events is **not** compatible?

- A. employment growth and low interest rates
- B. high interest rates and reduced aggregate demand
- C. inflation control and reduced government expenditure
- D. an increased budget deficit and a rise in national savings

Question 8

The following statistics relate to a country's balance of payments on current account transactions in a given year.

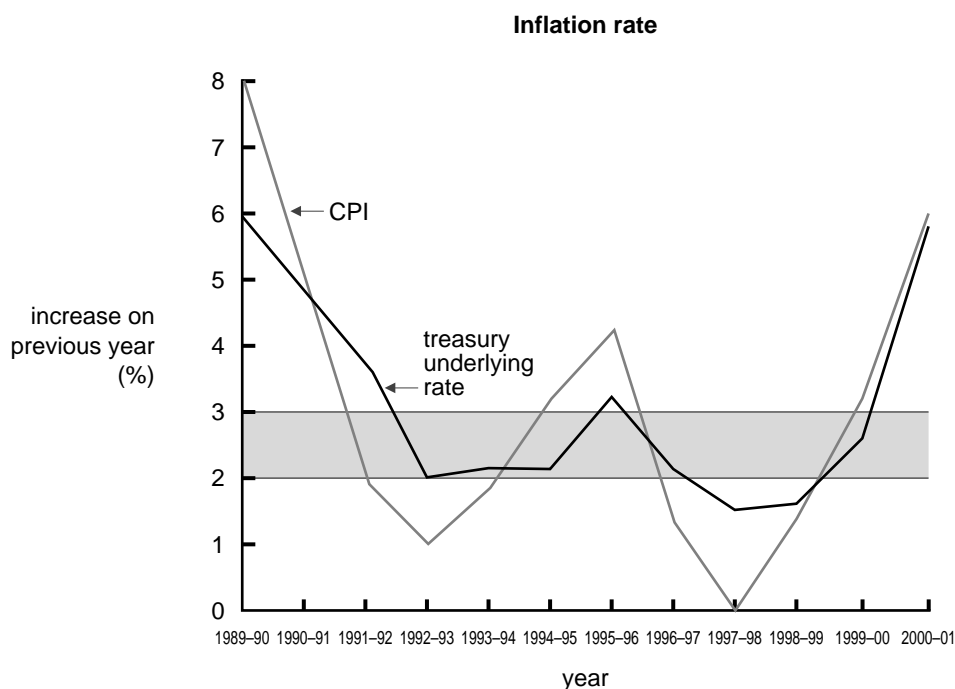
Current account	\$ billion
export of goods	82
import of goods	76
service credits	26
service debits	23
net income and transfers	-24

The current account deficit for the given year would be

- A. \$9 billion
- B. \$15 billion
- C. \$27 billion
- D. \$33 billion

Question 9

Refer to the following graph.



Source: Australian Bureau of Statistics, Consumer Price Index, various issues

The shaded area on the graph shown above is used to

- A. determine when the CPI inflation rate is below the treasury underlying rate.
- B. determine when the treasury underlying rate is below the CPI inflation rate.
- C. indicate the government's inflationary target over the length of the business cycle.
- D. indicate an unacceptable rate of inflation if one or both measures of inflation fall within this shaded area.

Question 10

Which government policy is likely to improve equity in the distribution of income?

- A. increasing petrol excise
- B. increasing the tax-free threshold
- C. decreasing marginal rates of income tax
- D. decreasing the level of tax on luxury items

Question 11

Allocative efficiency occurs when

- A. there is a balance between the use of resources for current consumption and future investment.
- B. the operation of market forces sees resources used in their most productive way.
- C. a smaller volume of resources are needed for each unit of production.
- D. firms become more innovative.

Question 12

Refer to the following table

Distribution of income by income units for selected years
Gross income share per cent of total income units

Quintiles	1989–90	1994–95	1999–2000
Lowest 20%	4.7	3.6	3.8
2nd	9.7	9.3	9.0
3rd	15.5	15.2	15.0
4th	24.0	24.0	23.8
Highest 20%	46.1	47.9	48.5
Gini coefficient	0.42	0.44	0.45

Source: ABS – Income Distribution Survey, Australia various issues

After examining the above table, which one of the following statements about the distribution of income is **not** correct?

- A. The distribution of income has become less even since 1989–90.
- B. The top 20% of income units have been increasing their share of total gross income.
- C. The Gini coefficients confirm that the distribution of income has become more equitable.
- D. The top 20% of income units received nearly half of the total gross income in 1999–2000 whereas the bottom 20% of income units shared less than 4%.

Question 13

If the government balanced its budget each year, the most likely effect of this would be

- A. the business cycle would disappear.
- B. tax rates would remain constant from year to year.
- C. recessions would be worse than they would be otherwise.
- D. government spending would remain constant from year to year.

Question 14

Microeconomic policy is

- A. a long-term process focusing on the supply side of the economy.
- B. focused on changing the cash rate to achieve price stability over the medium term.
- C. more effective in contracting the level of economic activity than in encouraging economic growth.
- D. the Commonwealth Government taking deliberate action to vary the level and composition of its outlays and tax collections.

Question 15

If the Reserve Bank of Australia wishes to tighten monetary policy, it would

- A. buy government securities and raise the cash interest rate.
- B. buy government securities and lower the cash interest rate.
- C. sell government securities and raise the cash interest rate.
- D. sell government securities and lower the cash interest rate.

**END OF SECTION A
TURN OVER**

SECTION B – Written responses**Instructions for Section B**

Answer all questions in one or more script books.

Question 1

- a. Explain the meaning of external stability. 3 marks
- b. From the following list of factors, select **one** demand factor **and one** supply factor. Explain how the two factors selected have affected or could affect the value of the Australian dollar.
- a drought across rural Australia
 - the terms of trade
 - the level of Australian interest rates
 - a recession in the rest of the world
 - new mineral discoveries in Australia
- 6 marks
- c. Examine **two** ways budgetary/fiscal policy has affected external stability in the current period (1999–2002). 6 marks
- d. In the latter part of the 20th century, Australia adopted policies to promote free trade (trade liberalisation).
- i. Explain **one** example of such a policy.
 - ii. Examine **one** economic cost and **one** economic benefit associated with the promotion of free trade (trade liberalisation).
- 3 + 4 = 7 marks
Total 22 marks

Question 2

‘There is strong potential for a further wave of productivity growth in coming years. Such sustained high productivity growth would provide a firm foundation for solid economic growth and rising living standards in Australia over the longer term.’

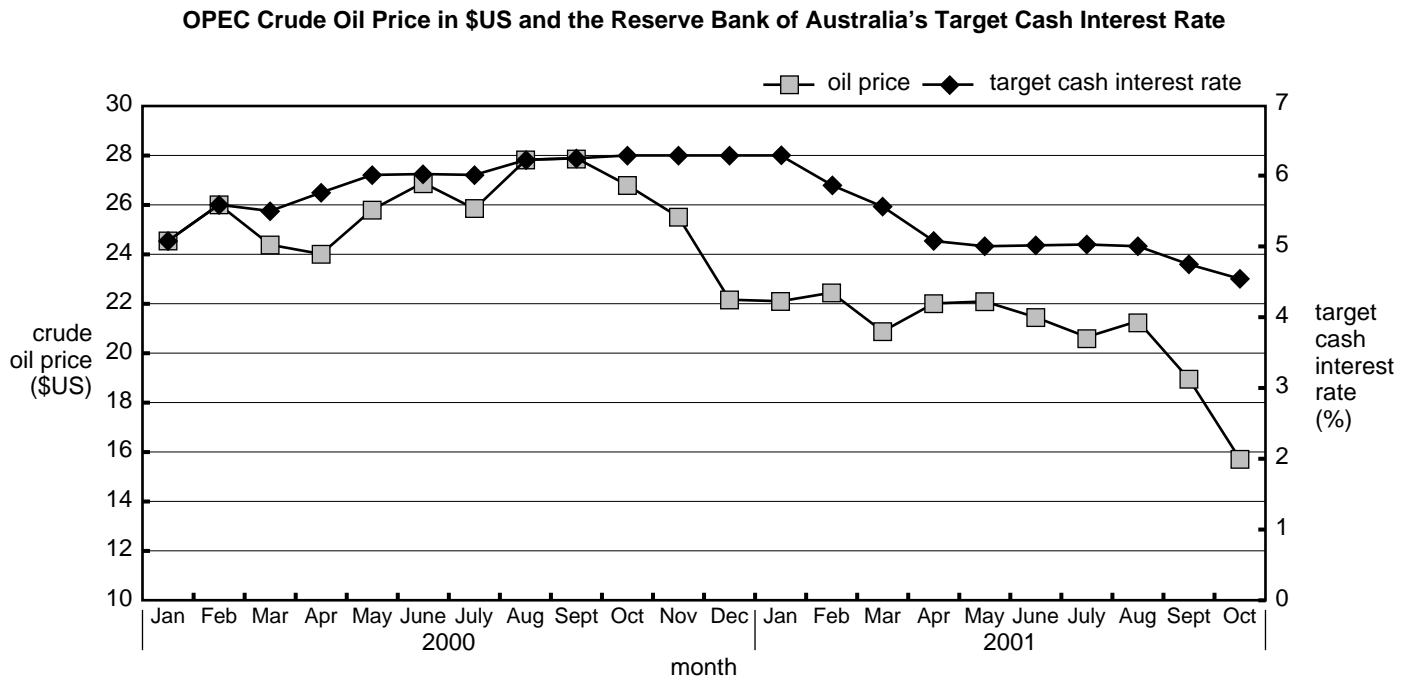
Source: AGPS Budget Paper No. 1 2001–02

- a. Explain the difference between production and productivity. 2 marks
- b. Explain how high productivity growth would provide a firm foundation for
- i. solid economic growth
 - ii. rising living standards.
- 6 marks
- c. Explain **two** factors that may contribute to Australia’s productivity growth in coming years. 6 marks
- d. Analyse the possible effects on the level of **domestic economic activity** of any **two** of the following government actions.
- increased investment expenditure by the Commonwealth Government (G2)
 - an increase in the level of Australian interest rates
 - continuing reform on the waterfront
 - selling all of Telstra to the private sector
- 6 marks

Total 20 marks

SECTION B – continued

Question 3



Source: Target Cash Interest Rate – Reserve Bank of Australia home page
<http://www.rba.gov.au>

OPEC Crude Oil Price – Energy Information Administration
<http://www.eia.doe.gov/emeu/mer/txt/mer9-2>

The graph shows the price of crude oil (\$US per barrel) set by OPEC (Organisation of Petroleum Exporting Countries) and the target cash interest rate set by the Reserve Bank of Australia, over the period January 2000 to October 2001. Note that the OPEC price can be regarded as the world price of crude oil.

- On the basis of the above graph, briefly describe the relationship between world crude oil prices and Australia's target cash interest rate.
2 marks
- Explain the Reserve Bank of Australia's current aim in setting monetary policy.
3 marks
- Describe the role of the target cash interest rate in the setting of monetary policy in Australia.
5 marks
- Explain why changes in the world price of crude oil might influence the Reserve Bank in its setting of monetary policy.
4 marks
- Explain **one** other factor that may influence the Reserve Bank in its setting of monetary policy.
4 marks

Total 18 marks