VICTORIAN CURRICULUM AND ASSESSMENT AUTHORITY

Victorian Certificate of Education 2010

SUPERVISOR TO ATTACH PROCESSING LABEL HERE

STUDENT NUMBER

										Letter
Figures										
Words										

ECONOMICS

Written examination

Friday 5 November 2010

Reading time: 3.00 pm to 3.15 pm (15 minutes)
Writing time: 3.15 pm to 5.15 pm (2 hours)

QUESTION AND ANSWER BOOK

Structure of book

Section	*Number of questions*	*Number of questions to be answered*	*Number of marks*
A	15	15	30
B	4	4	60
			Total 90

- 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 of 19 pages.
- 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 **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.

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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 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 completed for any question.

Question 1

A period of expansion in the business cycle is most likely to occur when

A. income tax rates are increased.

B. government capital expenditure is increased.

C. businesses lack confidence in future profit levels.

D. banks fail to pass on reductions in the cash interest rate.

Question 2

Which of the following is **least** likely to result from the Reserve Bank of Australia (RBA) achieving an inflation rate of 2–3 per cent, on average, over the cycle?

A. low unemployment

B. stability of the currency

C. sustainable economic growth

D. a decrease in international competitiveness

Question 3

Which of the following statements provides the best definition of an efficient allocation of resources?

A. the opportunity cost of the allocation of resources is zero

B. resources are allocated so that productivity is rising at the maximum possible rate

C. there is no alternative allocation of resources which will yield greater satisfaction to society

D. resources are allocated so that maximum output is obtained from the available factors of production

Question 4

Which of the following factors is likely to have an effect on the rate of inflation which is different from that of the other three?

A. an increase in rates of indirect taxation

B. a depreciation of the Australian dollar

C. an increase in labour productivity

D. an increase in energy costs

Question 5

Between December 2008 and December 2009 the value of the Australian dollar appreciated.

Which of the following might result from this movement?

A. an increase in direct foreign investment

B. an increase in the price of imported component parts

C. a decrease in Australian living standards

D. a decrease in the demand for Australian exports

Question 6

The rate of growth of real Gross Domestic Product (GDP) per capita might understate the improvement in living standards if

A. inflation is increasing.

B. pollution is increasing.

C. population is increasing.

D. leisure time is increasing.

Question 7

The demand for home insulation is most likely to increase if

A. a government subsidy for home insulation is removed.

B. advertising of air conditioners is increased.

C. the price of air conditioners is reduced.

D. the price of electricity is increased.

Question 8

The price elasticity of supply of a product will be higher when

A. the product is difficult to store.

B. the product takes a long time to produce.

C. the capital equipment required for its production is expensive.

D. the machinery and equipment used in its production is underutilised.

Question 9

A strong economic recovery in China is **least** likely to have which of the following effects on the Australian economy?

A. a decrease in commodity exports

B. an increase in imports

C. a decrease in the unemployment rate

D. an increase in interest rates

Question 10

In the market for computers, a rise in productivity is likely to

A. cause supply to decrease and price to fall.

B. cause supply to decrease and price to rise.

C. cause supply to increase and price to fall.

D. cause supply to increase and price to rise.

Question 11

The difference between the nominal cash interest rate and the real cash interest rate depends on

A. the exchange rate.

B. the rate of inflation.

C. the value of bank loans.

D. the interest rate banks charge their customers.

Question 12

The Australian Bureau of Statistics (ABS) measurement of unemployment may underestimate the true level of unemployment when

A. job vacancies have increased.

B. more people are taking early retirement.

C. people are discouraged from seeking work.

D. there is an increasing number of part-time employees.

Question 13

Which of the following is an example of macroeconomic demand management policies operating compatibly?

A. decreased interest rates, increased government spending and increased taxes

B. decreased interest rates, decreased government spending and decreased taxes

C. increased interest rates, increased government spending and increased taxes

D. increased interest rates, decreased government spending and increased taxes

Question 14

Consider the following table.

Year	Export price index	Terms of trade index
1	100	100
2	90	80
3	80	60

From the table one possible conclusion that can be drawn over the period shown is

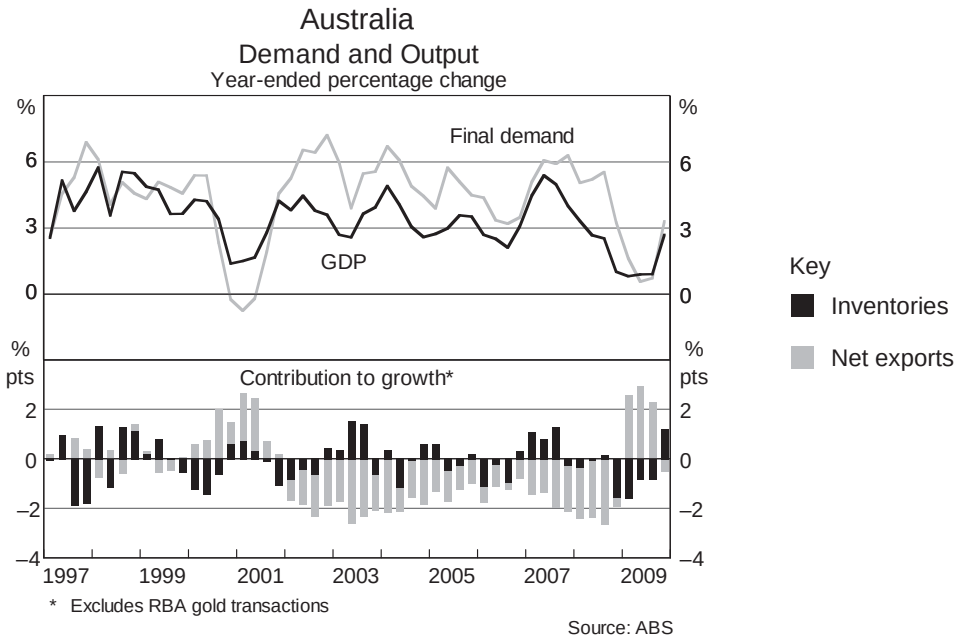
A. export prices were rising.

B. import prices were rising.

C. there was an improvement in the terms of trade.

D. more imports could be purchased with the same quantity of exports.

Question 15



According to the graph above, which of the following statements is **not** true?

A. The value of exports was greater than imports in 2009.

B. Inventories made a negative contribution to growth during 2009.

C. Australia achieved positive economic growth for all of the period shown.

D. A slow-down in final demand in 2009 coincided with an increase in inventories.

END OF SECTION A
TURN OVER

SECTION B – Written responses

Instructions for Section B

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

Question 1

a. Describe **one** example of a budgetary policy action, implemented over the past two years, which might have operated to achieve a more equitable distribution of income.

4 marks

b. Describe **one** example of a budgetary policy action, implemented over the past two years, which might have operated to improve Australia's external stability.

4 marks

c. Low inflation and strong and sustainable economic growth are considered key economic goals for the Australian economy. Discuss **one** impact on living standards of failing to meet the goal of low inflation and **another** impact on living standards of failing to meet the goal of strong and sustainable economic growth.

impact 1 _____

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impact 2 _____

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4 marks

d. Examine the relationship that has existed between budgetary policy and monetary policy in Australia over the past two years and its effect on the achievement of the economic goals of low inflation, and strong and sustainable economic growth.

8 marks

Question 2

a. In a competitive market, explain **one** factor that might cause a change in relative prices.

3 marks

b. Explain how a change in relative prices would result in a reallocation of resources.

3 marks

SECTION B – Question 2 – continued

c. Outline **two** reasons which might justify government intervention in markets to achieve an efficient allocation of resources.

reason 1 _____

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reason 2 _____

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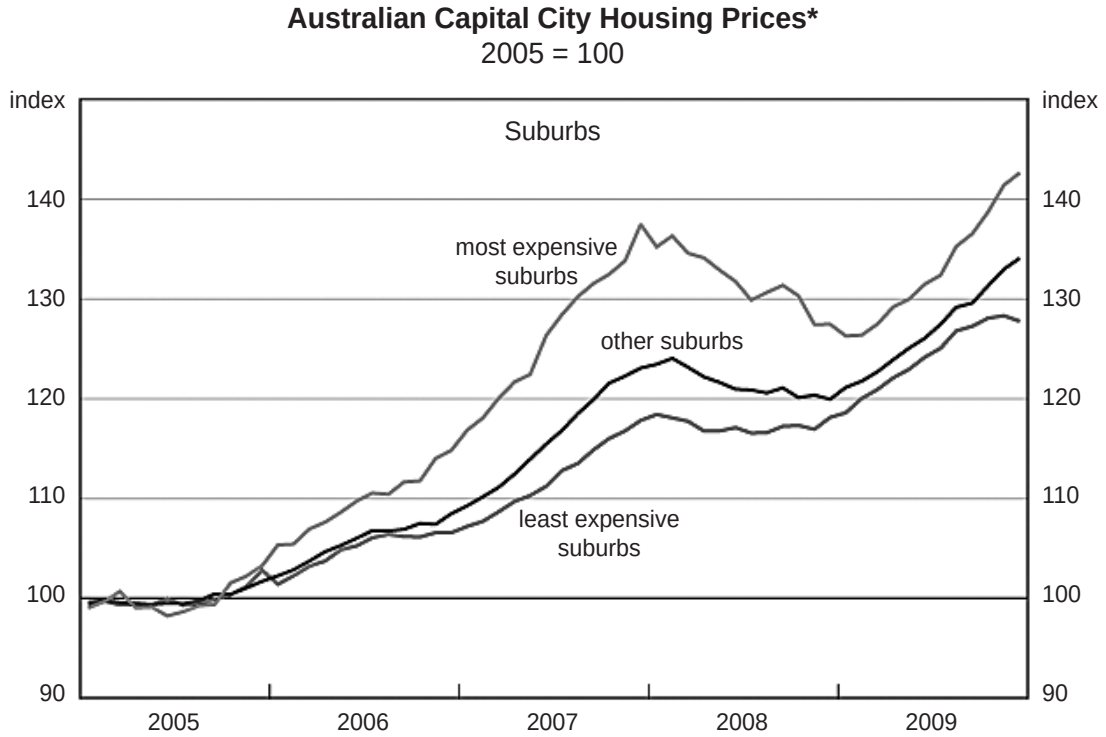
6 marks

Question 3



* weighted average of houses and apartments in capital cities, seasonally adjusted by RBA

Sources: APM; RBA; RP Data-Rismark, Reserve Bank of Australia Statement on Monetary Policy 2010 Graph 42

a. Describe the overall trend in capital city housing prices during the period shown in the graph.

2 marks

b. Outline **one** demand side factor and **one** supply side factor that might be influencing this trend.

4 marks

c. Discuss **two** possible effects on future living standards if this housing price trend continues.

4 marks

Question 4

The key conclusions in the Australian Government's 2010 Intergenerational Report, *Australia to 2050: Future Challenges*, are that an ageing population and climate change present significant long-term risks for the Australian economy.

a. Outline **two** economic problems for the Australian economy that might result from an ageing population.

problem 1 _____

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problem 2 _____

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4 marks

b. Explain how **two** aggregate supply policies might be used to reduce the effects of an ageing population.

aggregate supply policy 1 _____

aggregate supply policy 2 _____

8 marks

c. Outline **one** economic problem for the Australian economy that might result from the effects of climate change.

2 marks

d. Explain how **one** aggregate supply policy might be used to reduce the effects of climate change.

4 marks

END OF QUESTION AND ANSWER BOOK

Extra space for responses

Clearly number all responses in this space.

A script book is available from the supervisor if you need extra paper to complete your answer. Please ensure you write your **student number** in the space provided on the front cover of the script book. **At the end of the examination, place the script book inside the front cover of this question and answer book.**