

VCE ECONOMICS UNIT 1 2017



CPAP Practice examination

Reading time: 15 minutes

Writing time: 2 hours

Name _____

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 (Compulsory)	15	15	30
B (Compulsory)	5	5	30
C (Compulsory)	3	3	30
<i>D (Optional)</i>	<i>15</i>	<i>15</i>	<i>30</i>
			Total 90 or 120 marks

Note 1: Schools offering 90 minute exams should use Parts A–C
Note 2: Schools completing 2 hour exams should use Parts A–D
Note 3: Part D includes 15 additional multiple choice questions from across the Unit 1 syllabus

- 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.
- 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 space to complete an answer.

Instructions

- Write your **name** in the space provided above on this page.
- Check that your **name** is written on your multiple choice answer sheet(s).
- All written responses must be in English.

At the end of this examination

- Place the answer sheet(s) 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

SECTION A: Multiple Choice QUESTIONS (30 MARKS)

Question 1

Which of the following is most likely to be considered the opportunity cost associated with spending \$550 million to construct a gas-fired electricity plant with battery storage, to address energy security?

- a) The benefit that would be enjoyed if the \$550 million was spent on schools and a new hospital
- b) The reduction in environmental damage gained from a less carbon-intensive energy system
- c) The total construction cost of the plant and battery system
- d) The net benefit that would be enjoyed if the \$550 million was spent on the next best alternative

Question 2

According to the traditional economic view of consumers, which of the following is incorrect?

- a) Consumers are inherently self-interested and focused on maximising their own utility
- b) Consumers are likely to choose an option that minimises their utility
- c) Consumers consistently make rational choices that attempt to maximise their wellbeing
- d) Consumers generally have access to all of the information required to make rational, informed decisions

Question 3

Average material living standards in Australia are likely to decline if

- a) there is increased traffic congestion and pollution as a result of a larger population
- b) there is a decrease in access to health and education services
- c) there is a decrease in Australia's output and more people become unemployed
- d) real Gross Domestic Product rises faster than the increase in population

Question 4

The data in the table below represent the utility gained by a student in their consumption of chocolate frogs.

Chocolate frog	Total utility (utils*)
1 st frog	15
2 nd frog	27
3 rd frog	35
4 th frog	39
5 th frog	40
6 th frog	38

* 'utils' are a theoretical measure of utility

According to the data in the table, which of the following statements is correct?

- a) The student experiences a decrease in total utility with every frog they eat
- b) The student experiences an increase in their total satisfaction with every frog they eat
- c) The student experiences the most satisfaction from the first frog they eat
- d) The student should eat six frogs, because their total utility is still positive

Question 5

If a product became more popular, while at the same time the producers experienced increased costs of production, it can be concluded that

- a) equilibrium quantity and price will both rise.
- b) equilibrium price may rise or fall.
- c) equilibrium quantity will fall.
- d) equilibrium quantity may rise or fall, but equilibrium price will rise.

Question 6

A large barrier associated with entering the Australian domestic airline industry would be:

- a) The need to employ many workers
- b) The existence of many competitors, including Australian and overseas carriers
- c) The high costs of operating planes, including the need for very expensive aviation fuel
- d) The large expenditure on planes, terminals and other investment to establish the airline

Question 7

A study published in the British Medical Journal in 2016 found that, following the introduction by Mexico of a 10% tax on sugary drinks, there had been a 12% reduction in the sale of such drinks and a 4% increase in the sale of non-taxed bottled drinks, like diet soft drinks. In relation to this case, which of the following statements is not true?

- a) There will have been an increase in the allocation of resources to non-taxed drinks
- b) Sugary drinks and non-taxed bottled drinks are perfect substitutes
- c) The price of non-taxed bottled drinks is likely to rise
- d) The relative price of non-taxed bottled drinks has fallen

Question 8

Which of the following would lead to an expansion in the supply of spinach?

- a) A successful marketing campaign promoting the health benefits of spinach
- b) The release of research showing spinach consumption can be detrimental to health
- c) Government announces a subsidy to vegetable growers to help cover the cost of production
- d) An investigation reveals that many farm workers, including those picking spinach, are being underpaid

Question 9

Bounce-A-Lot Trampoline Centre offers four levels of ticket pricing: Adults, Pensioners, T(w)eens and Under 10s, whereas its neighbour, Inflatable World inflatable play centre, offers one flat entry price for all customers. Bounce-a-lot is undertaking

- a) multibranding.
- b) price discrimination.
- c) predatory pricing.
- d) anti-competitive conduct.

Question 10

Examine the diagram below. In the market for new cars, which of the following is most likely to cause the change shown in the diagram?



- The price of second hand cars decreases
- The price of new cars decreases
- The price of inputs for new cars decreases
- The price of petrol decreases

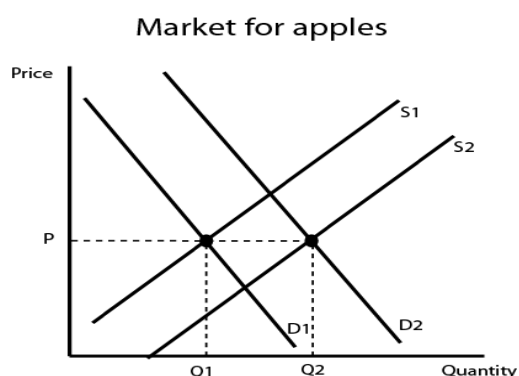
Question 11

Which of the following is unlikely to be the result of decreased competition in Australia's supermarket sector?

- Businesses will no longer be able to earn 'super normal' profits
- Productive (technical) efficiency within the industry is likely to worsen
- It will be more difficult for new businesses to enter the market
- It is likely that prices will increase across the sector

Question 12

Which of the following scenarios is most likely to cause the new equilibrium in the market for apples in Victoria as depicted in the diagram below?



- A hailstorm damages apple orchards across the state and a study links apple consumption to reduced cancer risk
- A successful marketing campaign for apples and an increase in the productivity of apple orchard workers
- A favourable growing season leads to a record harvest of apples and the price of bananas (a substitute for apples) fall
- SPC opens a new factory making apple pies and the government removes subsidies to agricultural producers (including apple growers)

Question 13

Which of the following conditions is not likely to occur in a perfectly competitive market?

- a) There are many buyers and sellers
- b) An individual buyer can influence the level of output in the market
- c) There are low set up costs, and it's easy for new sellers to enter the market
- d) Sellers offer identical products in the market

Question 14

Which of the following is most likely to result in a higher relative price of smart phones?

- a) A lower price of smart phones with all other prices in the economy decreasing by the same amount
- b) A higher price of smart phones with all other prices in the economy increasing by the same amount
- c) A lower price of smart phones with all other prices in the economy decreasing by a larger amount
- d) A higher price of smart phones with all other prices in the economy increasing by a larger amount

Question 15

The Austrian government operates an opt-out organ donor scheme. All citizens over 18 are considered to have consented to be organ donors unless they choose to withdraw from the scheme. Austria has much higher rates of organ donation than Australia, which has an opt-in scheme. This is an example of which influence on how humans make decisions?

- a) Status quo bias
- b) Herd behaviour
- c) Vividness
- d) Framing bias

SECTION B: STRUCTURED QUESTIONS (30 MARKS)

Name _____

Question 1 (2 marks)

Describe the basic economic problem of relative scarcity and explain whether all economies, even rich countries like Australia, face this problem.

Question 2 (4 marks)

Examine the list of statements below.

Choose one 'normative' economic statement and one 'positive' economic statement. For each statement you have chosen, justify your classification of that statement as either normative or positive.

Cutting company tax will increase economic activity and lead to lower unemployment.
Australia is one of the wealthiest countries in the world.
Minimum wages in Australia are too high.
The level of final output in Australia, measured by GDP, rose by 2.4% between December 2015 and December 2016.
Improving productivity will lead to an improvement in technical efficiency.
Improving productivity leads to an improvement in allocative efficiency.
An increase in personal tax rates will tend to reduce expenditure by households.
The decision to reduce penalty rates paid on Sundays will be good for the economy.

Normative statement and justification:

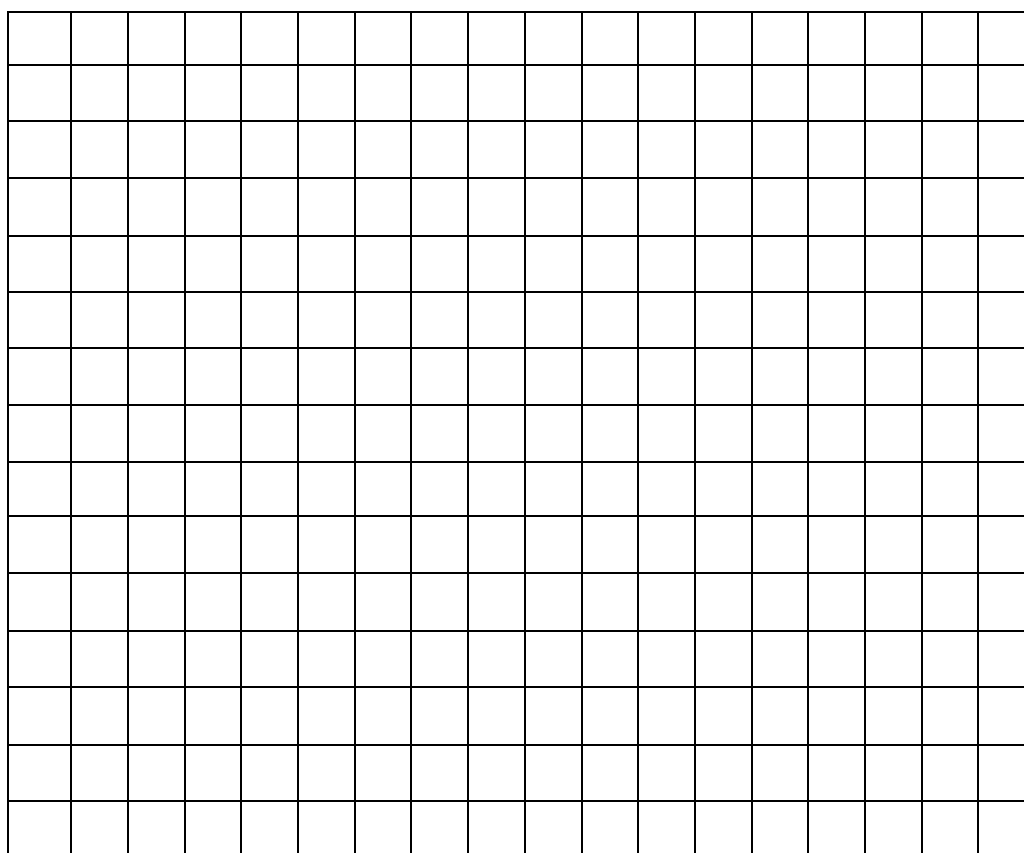
Positive statement and justification:

Question 3 (9 marks)

The table below shows the production possibilities of the small fictional economy of Schooltopia. Use the data to complete the questions that follow.

Combination	Consumer goods (\$000)	Capital goods (\$000)
A	140	0
B	115	30
C	110	40
D	80	70
E	50	80
F	0	95

- a) Use the data provided to plot a 'production possibility frontier' (PPF/PPC) for Schooltopia. 2 marks



0

- b) Calculate the opportunity cost of each of the following economic decisions. 0.5 + 0.5 = 1 mark
- i. Production of the first \$70,000 worth of capital goods

- ii. Moving from producing combination D to producing combination B

c) Explain why all output combinations from A to F would be considered technically efficient (productively efficient), but not all combinations would be considered allocatively efficient. 3 marks

d) On the PPF drawn in part a, illustrate the impact of each of following economic events. Clearly label each event on the diagram. 3 marks

- i. Schooltopia suffers a large reduction in population and drought in the same year.
- ii. Schooltopia experiences high unemployment.
- iii. Schooltopian scientists develop new technology that improves productivity in the country.

Question 4 (7 marks)**The Case for Investing in Last Resort Housing**

A report released in March this year has, for the first time, calculated the cost of homelessness in Victoria. The economists from the University of Melbourne Sustainable Society Institute found that homelessness cost \$25,615 per homeless person, per year. Their calculations included the cost of extra healthcare, crime and other factors.

The economists calculated that it would cost \$60,000 to create each emergency accommodation bed (last-resort housing) required to provide housing for Victoria's homeless population of 7,600, but that the investment would result in savings of \$10,800 per person per year, calculated over 20 years. The benefit-cost ratio of spending on last-resort housing was calculated at 2.7 over 20 years.

Lead author of the report, Ellen Witte, stated 'We hope that this will make clear to the Government that if you provide people with a roof over their heads there will be a lesser demand and impact on emergency services, on healthcare, on the police force because there will be a reduction of crime and, last but not least, it will greatly improve the quality of life of the people involved.'

Adapted from reports at: <http://sustainable.unimelb.edu.au/case-investing-last-resort-housing> and <http://www.abc.net.au/news/2017-03-16/cheaper-to-provide-homes-for-homeless-rather-sleep-rough/8354284>

- a) Explain the meaning of 'cost-benefit analysis' and explain why a cost-benefit analysis is conducted when governments are making major decisions. 3 marks

- b) Explain what the benefit-cost ratio calculated indicates about the proposal to provide last-resort housing to the homeless? 2 marks

- c) Imagine the Victorian government chose to proceed with the proposal made in the report. Explain the potential impact on the material living standards **or** the non-material living standards of Victorians. 2 marks

Question 5 (8 marks)

Ngaire and Tran are friends. They are studying economics at secondary school but they have many friends who are not lucky enough to study such an interesting subject. Over lunch one day, they explain to their friends that the traditional economic viewpoint sees consumers as *Homo economicus*, also known as 'rational economic humans'.

- a) Explain what Ngaire and Tran mean by *Homo economicus* and describe one feature of this character. 3 marks

When their friends express scepticism about humans acting in the way assumed by economists, Ngaire and Tran concede that a group called 'Behavioural Economists' have critiqued some of the assumptions of the 'rational economic human' model of humans as consumers.

- b) Explain **one** insight from behavioural economics that critiques the model of *Homo economicus*, illustrating your answer with an example. 2 marks

Later that evening, Ngaire is talking about her recent economics studies with her mother. Ngaire's mother is a senior manager in a large Australian corporation. Her mother explains that, while 'profit maximisation' has traditionally been the main focus of all businesses, in recent years many businesses have evolved beyond this primary focus. As a result, their goals have expanded to include:

- Concern about sustainability
- A commitment to community involvement
- Interest in gender equality
- A focus on innovation
- A focus on research and development

c) Choose **one** of the changing goals of business from the list above, and discuss how and why it has influenced businesses to expand their goals beyond the narrow pursuit of profit maximisation. 3 marks

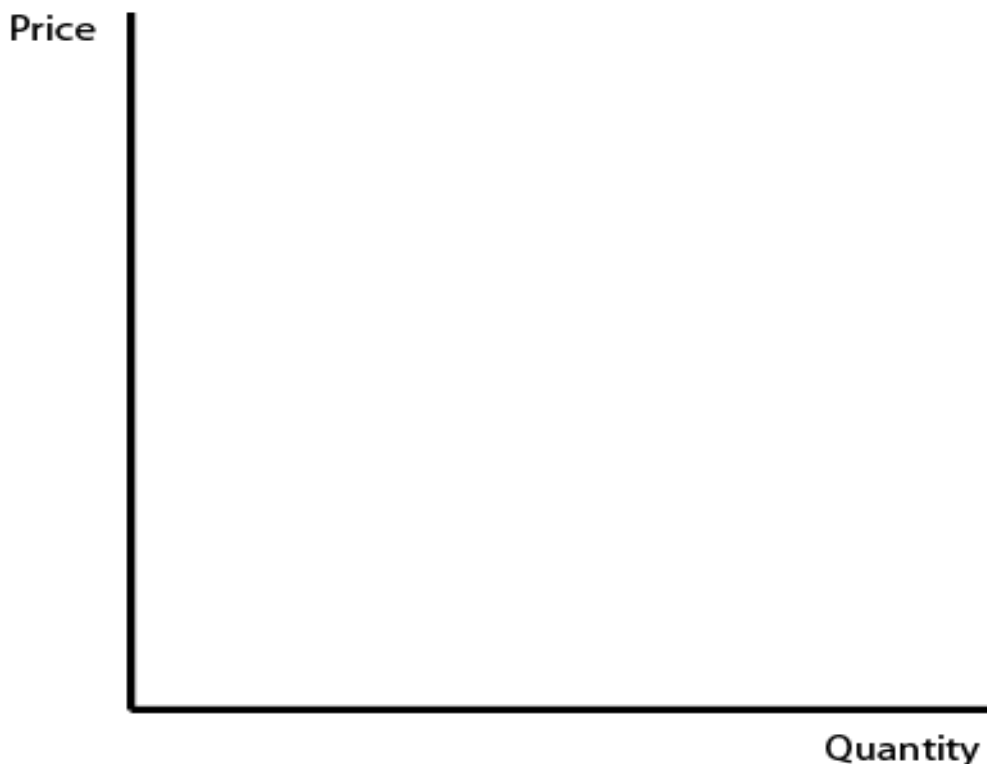
SECTION C: STRUCTURED QUESTIONS (30 MARKS)**Question 1 (7 marks)**

In recent months, there has been a vigorous public debate about Australia's energy generation. Rising electricity and gas prices, combined with electricity blackouts in South Australia, have created concern among electricity consumers and the government about the future of Australia's energy system.

In addition, in late March 2017, one of Victoria's largest electricity generating plants, Hazelwood power station located in the Latrobe Valley, ceased operation after a decision by its French owner, Engie, to close down the plant. Hazelwood generated power by burning highly-polluting brown coal, and was the source of around 25% of Victoria's electricity.

- a) Use the demand and supply diagram to illustrate the impact on the market for electricity of the decision by Engie to close down the Hazelwood generation plant. Ensure the diagram is fully annotated. 3 marks

Market for electricity



In response to widespread discussions of energy insecurity and rising prices of electricity, many households have decided to purchase solar panel and battery systems to generate their own electricity.

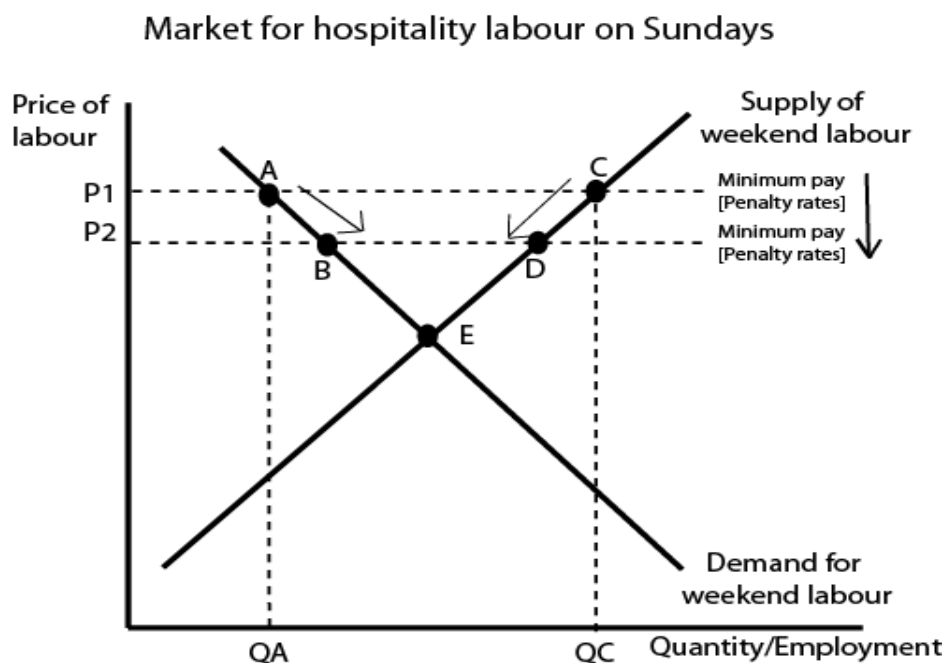
- b) Outline how resources might be reallocated following the closure of Hazelwood and changing consumer behaviour around energy prices. In your answer, refer to the role of relative prices. 4 marks

Question 2 (9 marks)

In February this year, the Fair Work Commission announced a decision that Sunday and public holiday penalty rates will be reduced for full-time and part-time workers in the hospitality, retail and fast-food industries. In hospitality, Sunday pay rates for workers would be cut from 175 per cent of their standard wage to 150 per cent. In retail, Sunday pay rates would be cut from 200 per cent to 150 per cent. Casual workers would also lose some of their Sunday and public holiday loading. Some estimates suggested that nearly half a million workers would be affected. The Commission said the cuts would lead to increased services and trading hours on public holidays and Sundays. The Commission recommended the changes should come into effect within a year of its decision.

- a) Identify one group in the economy that might be affected by the Commission's decision, and predict their likely reaction to the Commission's ruling. 2 marks

The diagram below depicts the impact of the Commission's decision on the market for hospitality labour on Sundays. Carefully examine the diagram and answer the following questions



- b) Referring to the diagram, outline the impact on both the demand for and supply of labour following the decision to reduce penalty rates of pay for working on Sundays in the hospitality industry. 4 marks

- c) Referring to the previous diagram, describe why the market was not in equilibrium before the decision to reduce penalty rates. Explain how the subsequent reduction in penalty rates helps to return the market towards equilibrium. 3 marks

Question 3 (14 marks)

In a report released in March 2017, the Australian Competition and Consumer Commission (ACCC) identified that the profit margins earned by Australia’s capital city airports were amongst the highest in corporate Australia. Sydney Airport’s profit margin was 46.7% in the 2015-16 financial year and Melbourne Airport’s was 38.2%. The ACCC found airports have been able to steadily increase their charges to passengers and airlines, in part because incentives to keep costs down are insufficient.

In addition, the ACCC’s chairman, Rod Sims, described the airports’ parking profit margins as ‘quite amazing’ – more than 73% at Sydney Airport, and more than 59% at Melbourne Airport. He said they get away with such high charges because they also force taxis, hire cars and shuttle buses to pay large fees to drop-off and pick-up at the airport. He stated that ‘Their access charges have gone up quite a lot, so airports don’t face much competition. ... It’s a great position to be in where you can have this near monopoly car parking and also make it more difficult for your competitors.’

- a) Distinguish between a ‘monopoly’ market and a ‘perfectly competitive’ market structure. 3 marks

- b) Explain why prices in a monopoly market are likely to be higher than in a market characterised by high levels of competition. In your response, refer to material provided in the case study. 3 marks

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- c) Explain why a perfectly competitive market is likely to lead to a more efficient allocation of resources compared to a monopoly market structure. 3 marks

Melbourne Airport practices a form of price discrimination in its pricing of car parking. It charges less per hour of parking for those customers who pre-purchase parking online, compared to those who simply drive up, enter the carpark and pay at the conclusion of their stay. Drive-up customers can pay up to twice as much as those who book online.

- d) Define 'price discrimination' and discuss how it can operate as a profit maximising strategy. 3 marks
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e) Identify and briefly explain one example of illegal, anti-competitive behaviour, as defined by the ACCC. 2 marks



VCE ECONOMICS UNIT 1
2017 Practice Examination

SECTION D

ADDITIONAL 30 MARKS WORTH OF
MULTIPLE CHOICE QUESTIONS

15 MULTIPLE CHOICE

**Answer the questions on the multiple
choice answer sheet marked Part D**

SECTION D

MULTIPLE CHOICE QUESTIONS [16-30]

Question 16

Regarding the two sector circular flow model of the economy, which statement is incorrect?

- a) An increase in production should lead to an increase in demand for resources from the household sector
- b) Profits, wages, rents, interest and royalties are all examples of income paid by the business sector
- c) An increase in production should lead to a decrease in incomes received by households
- d) An increase in expenditure by households should lead to an increase in production of goods and services

Question 17

When production is occurring such that it is not possible to increase output without increasing inputs, it suggests that the economy

- a) is achieving allocative efficiency
- b) is achieving technical (productive) efficiency
- c) is producing inside the production possibility frontier
- d) has experienced an increase in productivity

Question 18

Which of the following is not regarded as a factor affecting the willingness and ability to supply potatoes?

- a) Business confidence
- b) The cost of fertiliser
- c) Government subsidies to farmers
- d) Productivity of farm workers

Question 19

Economists conducted an experiment. Person A was given \$20. Person A could keep some of the money, if they offered any amount of the money to Person B and Person B accepted the amount offered. If Person B refused the amount offered, both participants received \$0. Person A offered Person B \$1 and Person B rejected the offer. They both ended up with no money. Which of the following combinations best describes how economists would characterise this interaction?

- i) Person A was acting rationally and in their own self-interest
 - ii) Person B was acting rationally and in their own self-interest
 - iii) Person A was demonstrating bounded self-interest
 - iv) Person B was demonstrating bounded rationality
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- a) i and ii
 - b) i and iii
 - c) i and iv
 - d) ii and iii

Question 20

Which of the following is an example of a positive incentive offered to some businesses?

- a) A tariff on imported inputs
- b) A subsidy on production
- c) A tax on carbon emissions
- d) Productivity growth

Question 21

Which of the following is most likely to improve non-material living standards?

- a) Increased levels of production
- b) Increased spending by households
- c) Increased access to education
- d) Increased work hours

Question 22

Which of the following is not an example of businesses responding to changing values and attitudes of society?

- a) The introduction of driver-less trucks in mines
- b) The increased use of recyclable packaging in products
- c) The introduction of 'blind recruitment' to reduce discrimination in employing new staff
- d) The use of Fair Trade cocoa in chocolate production

Question 23

An increase in the availability of qualified dentists would result in

- a) reduced prices of dentistry treatments and lower quantities sold.
- b) reduced prices of dentistry treatments and higher quantities sold.
- c) higher prices of dentistry treatments and lower quantities sold.
- d) higher prices of dentistry treatments and higher quantities sold.

Question 24

Decreased demand for motorbikes would lead to

- a) a decrease in the price of motorbikes and an increase in the price of motorbike helmets.
- b) a decrease in the price of motorbikes and a decrease in the price of motorbike helmets.
- c) an increase in the price of motorbikes and an increase in the price of motorbike helmets.
- d) an increase in the price of motorbikes and a decrease in the price of motorbike helmets.

Question 25

The problem of relative scarcity forces every economy to

- a) specialise in the production process.
- b) choose between alternatives.
- c) accept a minimum standard of living.
- d) produce capital resources.

Question 26

A shift to the left in the position of a demand curve will most likely be due to

- a) a fall in quantity supplied
- b) increased production costs
- c) a fall in the price of a complementary product
- d) a fall in the price of a substitute product

Question 27

Which of the following will result in a contraction in supply of Toyota Yaris cars?

- a) A rise in the price of Honda Civics
- b) A successful advertising campaign by Honda
- c) A rise in the average level of disposable incomes
- d) A rise in the labour costs at Toyota assembly plants

Question 28

Which one of the following is not a characteristic of monopolistic competition?

- a) Large numbers of buyers
- b) Large numbers of sellers
- c) Identical products
- d) Low barriers to entry and exit

Question 29

A large German hardware chain opens 100 new stores in Victoria. It sets its prices to be at least 15% lower than all other local hardware companies. Within 2 years, two of the four local hardware chains have closed down, and the German hardware chain takes advantage of the reduced competition by increasing its prices. This behaviour is called

- a) Price discrimination
- b) Economies of scale
- c) Cartel behaviour
- d) Predatory pricing

Question 30

Which of the following would be considered as a capital resource (factor of production)?

- a) A computer used by a Year 12 student to complete their homework
- b) The ability to write computer code
- c) A car park at a shopping centre
- d) A uranium deposit in South Australia

COMMERCE PRESENTATIONS AND PUBLICATIONS



**VCE ECONOMICS UNIT 1
2017 Practice Examination**

**SECTION A
(15 MULTIPLE CHOICE)**

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

COMMERCE PRESENTATIONS AND PUBLICATIONS



VCE ECONOMICS UNIT 1

2017 Practice Examination

SECTION D

(15 MULTIPLE CHOICE)

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:

16	A	B	C	D
17	A	B	C	D
18	A	B	C	D
19	A	B	C	D
20	A	B	C	D
21	A	B	C	D
22	A	B	C	D
23	A	B	C	D
24	A	B	C	D
25	A	B	C	D
26	A	B	C	D
27	A	B	C	D
28	A	B	C	D
29	A	B	C	D
30	A	B	C	D