



VCE ECONOMICS

UNIT 2 2017 Examination

SUGGESTED ANSWERS/MARKING SCHEME

SECTION A (1-10)
MC QUESTIONS (20 MARKS)
Economic growth, long-term economic prosperity & environmental sustainability
+
Economic efficiency & equity

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

Question 1

Which of the following is not an injection into the circular flow of income?

- A. Investment
- B. Exports
- C. Savings*
- D. Government spending

Use the following hypothetical information to answer questions 2 and 3

This scenario describes the total economic activity occurring in an economy: In Year 1, a dairy farmer produces milk, which she sells to the dairy processor for \$100. The processor creates cheese, which she then sells for \$200 to the retailer. The retailer sells the cheese to consumers for \$400. In Year 2, assume that economic activity remains the same, except that the retailer now sells the cheese to consumers for \$500.

Question 2

Which of the following statements is false?

- A. The total value of production in Year 1 is \$400
- B. Gross National Income for the economy in Year 1 is \$400
- C. Real Gross Domestic Product for the economy in Year 1 is \$400
- D. Nominal Gross Domestic Product for the economy in Year 1 is \$700*

Question 3

Identify the false statement from those below:

- A. The total value of production in Year 2 is \$500
- B. Real Gross Domestic Product for the economy in Year 2 is \$500*
- C. Nominal Gross Domestic Product for the economy in Year 2 is \$500
- D. The growth rate of real GDP has been zero

Question 4

Which of the following combinations are all examples of factors affecting aggregate supply?

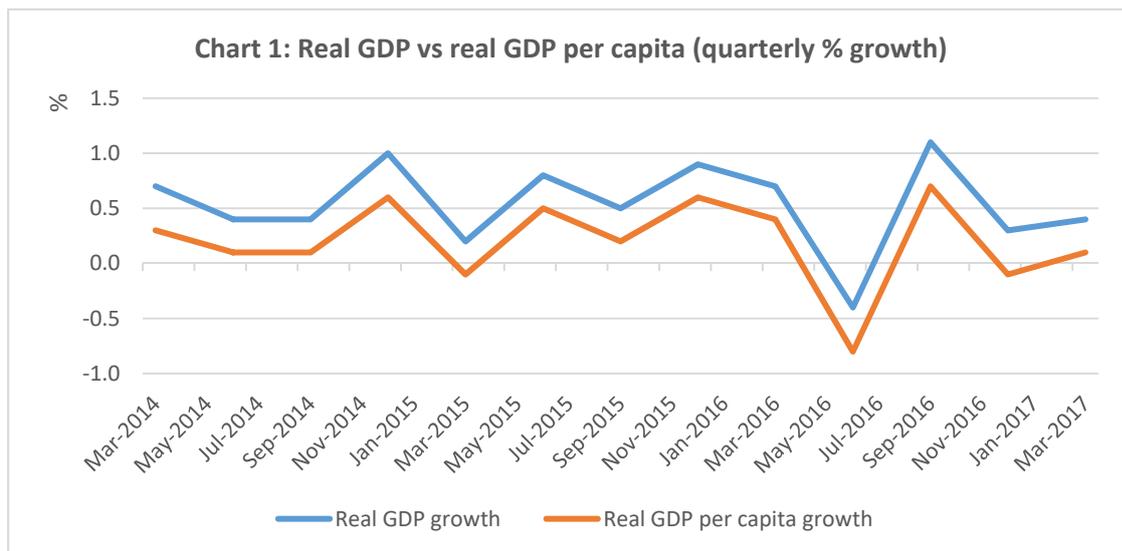
- A. Productivity, costs of production, business confidence
- B. Productivity, costs of production, interest rates**
- C. Consumer confidence, cost of inputs, climatic conditions
- D. Business confidence, wage growth, company tax rates

Question 5

If Australia was experiencing very low rates of economic growth (a downturn), it is likely

- A. the government would decrease budget spending and/or increase taxes, and the RBA would decrease the cash rate (interest rates).
- B. the government would increase budget spending and/or cut taxes and the RBA would increase the cash rate (interest rates).
- C. the government would decrease budget spending and/or increase taxes and the RBA would increase the cash rate (interest rates).
- D. the government would increase budget spending and/or cut taxes, and the RBA would decrease the cash rate (interest rates).**

Question 6



According to the data provided in Chart 1, which of the following statements is false?

- A. Material living standards are likely to have fallen between early 2016 and mid-2016
- B. In March 2017, Australia's output was greater than in September 2016
- C. Material living standards fell between May 2014 and September 2014**
- D. Material living standards rose between March 2014 and March 2017, but non-material living standards may have fallen

Question 7

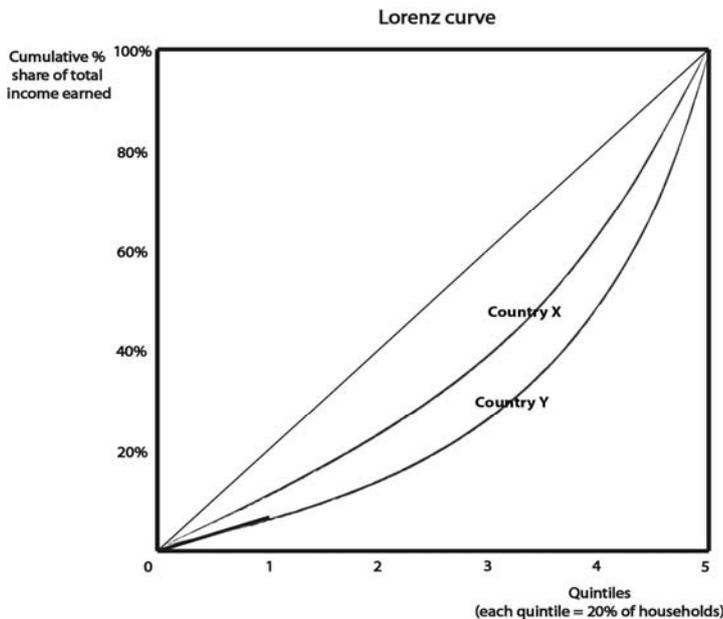
All of the following examples are likely to contribute to more environmentally sustainable economic growth, apart from

- A. households installing solar panels on their rooves.
- B. government legislation to reduce the number of fishing licenses on issue.
- C. introduction of a tax on carbon emissions.
- D. government subsidies to coal-fired electricity generation.**

Question 8

In relation to the Lorenz curves shown in the diagram below, which of the following statements is false?

- A. Country Y is likely to have a larger Gini coefficient than Country X
- B. Country X is likely to have a more unequal distribution of wealth than Country Y*
- C. Country X has a more equal distribution of income than Country Y
- D. Country X is likely to have a more progressive income tax system than Country Y



Question 9

Which of the following factors is mostly likely to worsen equity in the distribution of equalised household disposable income?

- A. The government introduces a tax on inheritances of over \$1 million
- B. The government increases funding for training for young, homeless people
- C. The unemployment rate rises from 5.6% to 7%*
- D. The government removes excises (indirect taxes) on alcohol and petrol

Question 10

Assume that the government reduced the top marginal income tax rate and increased the GST rate. Which of the following would not be considered a benefit of such a policy?

- A. Increased tax receipts from all households, regardless of income*
- B. Increased productive efficiency due to rising productivity
- C. Improved incentives for those on higher incomes to work harder
- D. The 'trickle down' effect as businesses and wealthy individuals take more entrepreneurial risks

SECTION B:
SHORT ANSWER (25 MARKS)
Economic growth, long-term economic prosperity & environmental sustainability

Question 1 (12 marks)

Table 1: Growth in real GDP (seasonally adjusted)

	Quarterly growth (%)	Annual growth (%)
Dec-2013	0.9	2.3
Mar-2014	0.8	3.0
Jun-2014	0.7	3.0
Sep-2014	0.4	2.8
Dec-2014	0.4	2.3
Mar-2015	1.0	2.5
Jun-2015	0.2	2.0
Sep-2015	0.8	2.4
Dec-2015	0.5	2.5
Mar-2016	0.9	2.4
Jun-2016	0.7	2.9
Sep-2016	-0.4	1.7
Dec-2016	1.1	2.3
Mar-2017	0.3	1.7

Source: ABS Cat No: 5206.0 - Australian National Accounts, March 2017

a. Define economic growth and describe the overall trend in annual economic growth between June 2014 and March 2017. 2 marks

- 1 mark for an accurate definition of economic growth with reference to growth in GDP
- 1 mark for a description of the trend using statistics

Note: Students should not be awarded full marks if they do not refer to an increase in the value of real output or production within their definition.

Sample answer: *Economic growth refers to the rate at which economic activity has grown over time and is most commonly determined by the change in the real value of output [production] from one year to the next. In the case of Australia, economic growth is measured by the change in real GDP - the value of all goods and services produced in Australia over a given period of time - compared to the previous period. Between June 2014 and March 2017, annual economic growth trended downwards, from a high of 3% in June 2014 to 1.7% in March 2017.*

There are various sources of forecasts for real GDP. They predict annual growth of between 1.5 and 3.0 per cent for the remainder of 2017 and into 2018. Australia's long-term average GDP growth rate, and the rate most desired by government, is between 3.0 and 3.25 per cent.

b. Explain one economic benefit of economic growth. 2 marks

- 1 mark for simply stating an economic benefit of economic growth
- 2 marks for a detailed explanation of an economic benefit of economic growth

Note 1: Several economic benefits of economic growth are listed in the Study Design including: growth in material living standards, employment opportunities and economic development.

Note 2: Students should not be rewarded for explaining benefits that are not economic, such as improvements in non-material living standards.

Sample answer: One economic benefit of economic growth is increased employment opportunities. The increased output associated with economic growth will usually require increased employment of labour, leading to increased demand for labour, increased incomes and improvements in the material living standards of individuals [as they will be able to purchase more goods and services].

c. Explain one government policy that has been used, or could be used, to increase economic growth in Australia. 3 marks

- 1.5 marks for identifying and briefly explaining a specific example of government policy used to stimulate economic growth
- 1.5 marks for explaining how the policy will help to stimulate economic growth, with a link to either AD or AS

Sample answer: One government policy that could be used to stimulate economic growth is expansionary budgetary policy. Budgetary policy involves the taxation and spending decisions of the [Federal] government. Generally, expansionary budgetary policy will involve an increase in the level of government spending relative to taxation collected, usually resulting in a budget deficit or a smaller budget surplus. By itself, a budget deficit means an increase in the injections into the flow of income relative to the leakages from the income flow, leading to increased AD. For example, the government could provide income tax cuts alongside increased spending on education. The tax cuts would lead to increased disposable income for households, encouraging increased Consumption spending, an increase in AD and increased economic growth as businesses increase output in response to higher levels of spending.

d. Explain why growth in real GDP per capita is used to measure improvements in material living standards and use data from Table 2 to respond to the claim that material living standards in Australia improved between 2013 and 2017. 3 marks

Table 2: Growth in real GDP per capita (seasonally adjusted)

	Quarterly growth (%)	Annual growth (%)
Dec-2013	0.5	0.7
Mar-2014	0.4	1.4
Jun-2014	0.3	1.4
Sep-2014	0.1	1.3
Dec-2014	0.1	0.9
Mar-2015	0.6	1.1
Jun-2015	-0.1	0.7
Sep-2015	0.5	1.1
Dec-2015	0.2	1.2
Mar-2016	0.6	1.2
Jun-2016	0.4	1.7
Sep-2016	-0.8	0.4
Dec-2016	0.7	0.9
Mar-2017	-0.1	0.2

Source: ABS Cat No: 5206.0 - Australian National Accounts, March 2017

- 1 mark for defining GDP per capita
- 1 mark for explaining why real GDP per capita is used to measure material living standards
- 1 mark for using the data to support the claim that material living standards increased over the period specified

Sample answer: Growth in real GDP per capita refers to an increase in the real value of production of goods and services per person over time. The growth in real GDP per capita is used to measure improvements in material living standards because, when the value of production per person increases in real terms over time [after removing the effects of inflation], this leads to more employment opportunities and increased income, enabling the average person to purchase more goods and services from one year to the next. The data in Table 2 shows that annual growth in real GDP per capita has been consistently positive between 2013 and 2017, meaning that the level of material well-being in Australia is higher in

2017 compared to 2013. [Although real GDP per capita fell during three quarters between 2013 and 2017, overall, the consistent annual growth in real GDP per capita means that the real value of GDP per person in 2017 is greater than the real value of GDP per person in 2013.]

Note: Square bracketed section is not required for full marks; however, if students use the three negative quarters growth in real GDP per capita over the period to argue material living standards deteriorated between 2013 and 2017, they should not be rewarded.

e. Describe one alternative indicator (measure) of living standards and explain why the indicator may provide a better measure of living standards than real GDP per capita.

2 marks

- 1 mark for identifying and describing an alternative indicator of living standards
- 1 mark for explaining why the indicator may provide a better measure of living standards compared to real GDP per capita

Sample answer: The ABS' 'MAP – Measures of Australia's Progress' attempts to answer the question 'Is life in Australia getting better?' by gathering data on Australia's performance across the four key domains of society, economy, environment and governance. Unlike growth in real GDP per capita, which focuses on measuring only improvements in the material living standards of Australians, the MAP attempts to measure performance across many different areas of Australian life, including factors that influence our quality of life, or non-material living standards. This involves collecting data on areas as diverse as safety, environmental management and levels of waste, trust in political processes, health and work situations, and then providing an indication of whether Australia has achieved progress or gone backwards in each of these measures. Because of its much broader data sample and insight into those factors that influence our lives beyond the material realm, MAP provides a better insight into overall living standards than that provided by growth in real GDP per capita.

Note: Other possible indicators include the Human Development Index (HDI), Genuine Progress Indicator (GPI), Gross National Happiness (GNH – used in Bhutan), OECD Better Life Index, UN Sustainable Development Goals (SDG).

Question 2 (6 marks)

Describe how the rate of economic growth is likely to be affected by each of the following economic events.

a. An increase in the Medicare levy from 2% to 2.5%, as proposed in Budget 2017/18

2 marks

- 1 mark for identifying that increasing the Medicare levy will reduce disposable income
- 1 mark for linking a decrease in disposable income to reduce C, AD and economic growth

Sample answer: The government increasing the Medicare levy to 2.5% would represent an increase in taxation rates for most taxpayers. This would decrease the disposable [after tax] income of most Australian households, reducing the willingness and ability of households to purchase goods and services, reducing Consumption and AD. As the business sector notices a reduction in spending there will be a reduction in output and economic growth.

b. Appreciation of the Australian dollar exchange rate from 0.73USD in January to 0.79USD in August 2017. 2 marks

- 1 mark for identifying that an appreciation of the Australian dollar is an unfavourable AD factor the impacts negatively on economic growth
- 2nd mark for explaining the decrease in international competitiveness, decreased X and/or increased M, decrease in AD and decreased economic growth

Sample answer: As the Australian dollar appreciates relative to other currencies this results in Australia's export sector (X) becoming less internationally competitive as overseas buyers need to exchange more of their currency to purchase the same quantity of our exports. [Furthermore, Australia's import-competing sector will also face increased competition from relatively cheaper imported substitutes]. The Net Exports (X-M) component of AD will fall, leading to a decrease in AD and a deterioration in economic growth.

Note 1: Square bracketed section is not required for full marks

Note 2: Students who argue that appreciation of the AUD exchange rate will be favourable for AS (and therefore economic growth), because of the reduction in the price of imported imports should be rewarded with a maximum of 1 mark. Students should be aware that the negative implications of a higher exchange rate for AD will outweigh the positive AS effect of the appreciation, and that overall, an appreciating dollar is likely to have a negative effect on economic growth.

c. The growth in unit labour costs (one measure of the cost of employing labour) since early 2016 is shown in Chart 2 below. 2 marks



Source: RBA Chart pack August 2017

- 1 mark for identifying that unit labour costs growth has been very slow and sometimes negative since early 2016
- 2nd mark for identifying that falls (or very slow rates of increase in) unit labour costs is favourable for AS and economic growth

Sample answer: Unit labour costs are an aggregate supply (AS) factor, as they represent the change in the price of one cost of production. Since early 2016 the growth in unit labour costs has been very low, and sometime negative. [On the occasions when the unit labour cost growth has been negative, this means that the cost of each unit of output in terms of the cost of labour inputs is actually falling]. This will be favourable for AS, as low or falling costs of production will lead to increased willingness and ability of firms to produce, increasing economic growth.

Note 1: Square bracketed section is not required for full marks

Note 2: Students do not need to demonstrate an understanding of real unit labour costs to achieve full marks, beyond the fact that (as noted in the question) they are one measure of the cost of labour.

Note 3: Students who refer to the negative growth in unit labour costs as indicating that wages are falling, and go on to make a link to the effect of declining wages growth on AD should not be rewarded. The question specifies that unit labour costs growth is a measure of cost of labour, and unit labour costs also measure the relationship between wages growth and productivity growth, and therefore it is not accurate to state that a fall in unit labour costs must be the result of a fall in wages.

Question 3 (7 marks)

The South Australian Government has a target that 50 per cent of the state's energy will be supplied from renewable sources by 2025. In mid-2017, it reported that 53 per cent of its energy has come from sun and wind-based sources. However, concerns over the sustainability of the network and interruptions to renewable energy generation (highlighted by a statewide blackout in late 2016) have prompted the South Australian Government to partner with Tesla to build the world's largest battery to store energy from a nearby wind farm.

a. Explain why there is an inevitable trade-off between the pursuit of economic growth and environmental sustainability **2 marks**

- 1 mark for a superficial explanation of the trade-off, with no explanation of what is meant by 'trade-off' or 'environmental sustainability'
- 2 marks for a more sophisticated explanation of the trade-off, with an explanation of what is meant by 'trade-off' and 'environmental sustainability'

***Sample answer:** A trade-off refers to foregoing the opportunity to gain something of value with our resources, once those resources are used for some other purpose. The trade-off between pursuing economic growth and environmental sustainability occurs because when an economy or government pursues a growth strategy focused on increasing economic growth, it is unlikely that the environment can be maintained in its current form. A whole-hearted pursuit of economic growth can come at the cost of environmental sustainability - preserving our natural environment into the future by ensuring that current practices do not create environmental harm or deplete our natural resources. [On the other hand, if governments choose to focus on preserving the environment, then economic growth can suffer because businesses will need to be constrained in order to reduce their negative impact on the environment.]*

Note: Square bracketed section is not required for full marks

b. Outline how economic growth can lead to negative externalities. **2 marks**

- 1 mark for demonstrating an understanding of a 'negative externality'
- 1 mark for outlining how economic growth can result in negative externalities

***Sample answer:** A negative externality occurs when the production or consumption of a good or service results in a cost to a third party [someone not involved in the transaction]. A focus on economic growth without government regulation can result in some producers attempting to reduce their own costs by passing on some of the 'costs' of production to those not party to the transaction. This might include polluting, by releasing waste into the air or rivers, or releasing carbon emissions into the atmosphere. Such pollution imposes a cost on [society] and others who do not benefit from the production [such as those who live in low-lying areas prone to inundation from rising ocean levels].*

c. Explain how one government policy action can be used to address the environmental effects of economic growth. In your response, discuss a specific example. You can use the example provided or one you have studied. **3 marks**

- 1 mark for describing a relevant government policy action

- 2nd mark for a superficial explanation of how the policy action addresses the environmental effects of economic growth
- 3rd mark for a more detailed explanation of how the policy action addresses the environmental effects of economic growth

Sample answer: *One policy option available to the government in addressing the environmental effects of economic growth is to promote and/or subsidise the provision of environmentally friendly energy to replace fossil-fuel based energy sources. In the case of South Australia, the government has introduced a renewable energy target requiring 50% of the state's energy to be from renewable sources by 2025. In order to support this outcome, the government has also chosen to invest heavily in renewable energy generation and storage, as outlined in the case study.*

Subsidising renewable energy generation and storage reduces the relative price of such energy generation operations, compared to traditional carbon-intensive energy produced by burning coal or gas. Over time, more households and businesses will source their energy requirements from these 'relatively cheaper' sources, and more resources will be allocated to renewable energy generation, which reduces carbon emissions. This will, over time, help to counteract the effects of climate change that have resulted from energy-intensive economic growth.

**SECTION C:
SHORT ANSWER (25 MARKS)
Economic efficiency and equity**

Question 1 (13 marks)

Table 1: Measures of income and wealth distribution, Australia, 2011-12 and 2013-14

Quintile	2011-12	2011-12	2011-12	2013-14	2013-14	2013-14
	Mean equivalised disposable household income per week (\$)	Quintile share, total equivalised disposable household income (%)	Quintile share, total estimated net worth* (%)	Mean equivalised disposable household income per week (\$)	Quintile share, total equivalised disposable household income (%)	Quintile share, total estimated net worth* (%)
Lowest	363	7.5	0.9	375	7.5	0.9
Second	610	12.6	5.2	615	12.3	5.1
Third	832	17.3	12.0	843	16.9	11.4
Fourth	1110	23.0	21.0	1119	22.4	20.5
Highest	1903	39.5	60.8	2037	40.8	62.1
Gini coefficient		0.320	0.593		0.333	0.605

Source: ABS Cat. No. 6523.0, 'Household Income and Wealth, Australia, 2013-14

*The ABS uses 'net worth' to measure distribution of wealth in Australia. It refers to the value of all assets owned by a household (e.g. property owned outright) minus the value of all liabilities (e.g. debt owed on property).

'Reserve Bank governor, Philip Lowe, [said] inequality in Australia is getting worse. ... Speaking at an event supporting the Anika Foundation, he said the gap between the rich and poor has widened in recent years, but made the distinction between "wealth" and "income" inequality. ... Dr Lowe said income inequality was also rising, but not as badly as wealth inequality. "Income inequality has drifted up a little but not very much," he said.'

Extract from: 'RBA governor says inequality getting worse, contradicting Scott Morrison', ABC online, 27th July 2017, <http://www.abc.net.au/news/2017-07-26/rba-says-inequality-getting-worse/8746594>

a. Define 'income' and 'wealth' and explain how wealth can increase income.

3 marks

- 1 mark for defining income
- 1 mark for defining wealth
- 1 mark for explaining how wealth can be used to create income

Sample answer: *Income is the money received by a household or other economic entity over a period of time and that is available to purchase goods and services. Income is a flow of money. On the other hand, wealth refers to the stock of assets held by a household or individual at a given point in time. If an individual has wealth this means that at some point in the past they have had income greater than their expenditure and have been able to put aside some of this income rather than spending it. This wealth can then be invested in income-generating assets such as property, shares or collectables, or simply deposited in a financial institution. Such assets then generate income in the form of rent, dividends, capital gains or interest.*

b. Discuss the RBA Governor’s claim that income inequality ‘has drifted up a little,’ but wealth inequality is much worse. Use data from Table 1 to support your answer.

4 marks

- 0.5 mark for identifying that income inequality has increased slightly
- 0.5 mark for identifying that wealth inequality is much worse than income inequality
- 1.5 marks for supporting the claim of increasing income inequality with evidence from the table
- 1.5 marks for supporting the claim of high levels of wealth inequality with evidence from the table

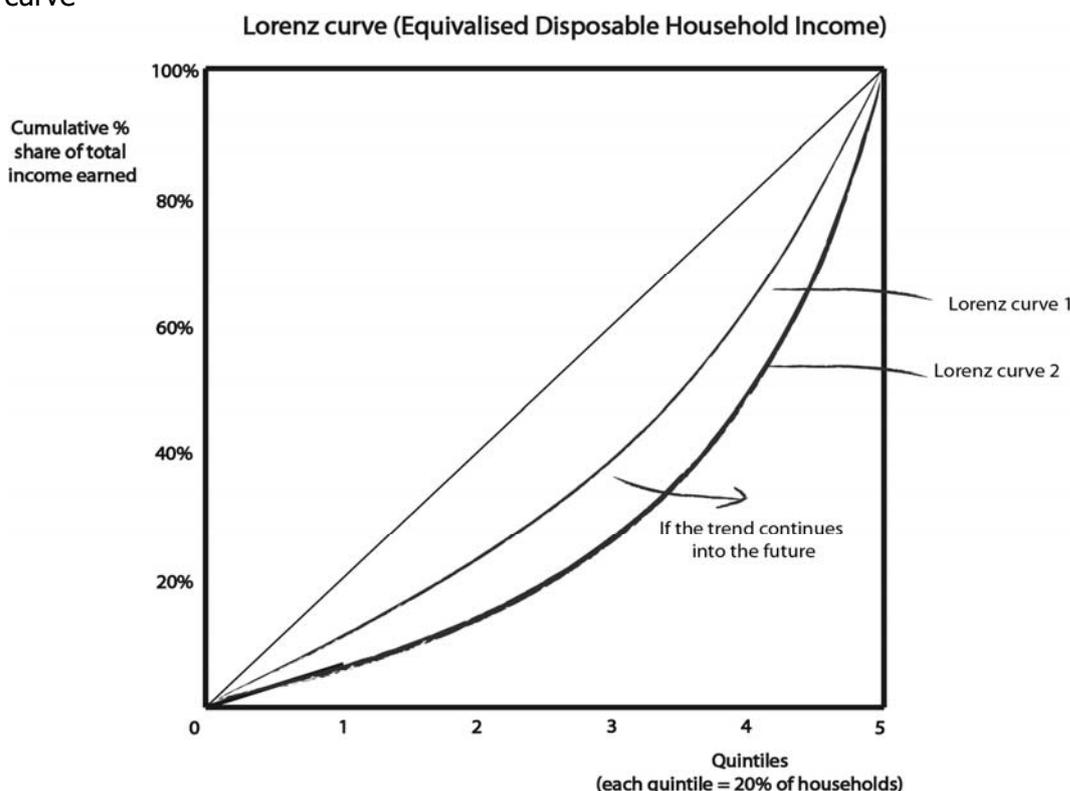
Sample answer: The RBA governor is correct in observing that income inequality has increased slightly over time, but that income distribution is much less unequal than the distribution of wealth in Australia. The data in Table 1 supports both of Dr Lowe’s claims. The Gini coefficient is a measure of income inequality, where a Gini coefficient of zero indicates that all income earners receive the same share of income. As the Gini coefficient moves closer to 1, income inequality increases. Given that the Gini coefficient for distribution of [equivalised disposable household] income increased from 0.320 in 2011-12 to 0.330 in 2013-14, it indicates that income inequality has worsened (or increased).

On the other hand, wealth inequality, while not increasing rapidly, is much more extreme than income inequality in Australia. The Gini coefficient for net worth [the ABS’ measure of wealth] was 0.605 in 2013-14, compared to 0.593 in 2011-12. Furthermore, in 2013-14, the share of wealth owned by the top 20% of households was 62.1%, compared to only 0.9% held by the lowest 20% of households. This indicates that, as Dr Lowe stated, the gap between rich and poor has widened in recent years and that wealth was much more unequally distributed than income [as evidenced by the much larger Gini coefficient for wealth (0.6) compared to income to income (0.33)].

c. On the diagram below, label the vertical and horizontal axis and show how the Lorenz curve is likely to shift if the Gini coefficient continues on its current path into the future.

2 marks

- 0.5 mark for correctly labelling the vertical axis
- 0.5 mark for correctly labelling the horizontal axis
- 1 mark showing the correct placement of the new Lorenz curve to the right of the original Lorenz curve



d. Explain the likely impact on the distribution of income of the following government budgetary policy decisions:

4 marks

i. Increased spending on training and education

- 0.5 mark for identifying that increased spending on training and education should make the distribution of income more equal over time
- 1.5 marks for explaining how increased spending on training and education can improve the distribution of income over time

Sample answer: *Increased spending on training and education can help to improve the skills and employability of the long-term or hard-core unemployed. To the extent that this spending meets gaps in education or improves out-of-date skills, individuals who are currently unemployed [or underemployed] may be able to gain [further] paid employment. There will be a reduction in the level of inequality in income distribution as these individuals move from low transfer payments [such as pensions or unemployment benefits] to higher factor incomes [e.g. wages and salaries].*

ii. An increase in the GST rate from 10% to 15%

- 0.5 mark for identifying that increasing the GST rate will make the distribution of income more unequal over time
- 1.5 marks for explaining the regressive nature of the GST and the link to worsening income inequality

Sample answer: *The GST is an indirect, regressive tax currently levied at a fixed rate of 10% on the purchase of most goods and services. If the government increases the GST rate to 15% this will impact most heavily on those on lower incomes. This is because the flat rate tax of 15% of the purchase price on each item would represent a larger proportion of the income of a low-income earner compared to a high-income earner. Hence, low-income earners will be paying a larger percentage of their income on the tax and worsening equity in the distribution of income.*

Question 2 (6 marks)

Table 2: Poverty Lines: Australia, March Quarter, 2017*

	Income Unit	Including housing \$ per week	Other than housing \$ per week
Head in workforce	Couple	638.18	499.67
	Couple plus 2	821.22	621.12
	Couple plus 4	1235.33	984.10
	Single person	510.71	343.70
	Single parent plus 1	655.65	472.05
	Single parent plus 3	931.64	714.93
Head NOT in workforce	Couple	568.58	402.98
	Couple plus 2	862.66	645.96
	Couple plus 4	1138.73	887.50
	Single person	414.11	247.10
	Single parent plus 1	558.96	375.45
	Single parent plus 3	835.03	618.33

*Source: Poverty Lines: Australia, March Quarter 2017, Melbourne Institute of Applied Economic and Social Research
* Income figures are after income tax. Average disposable income per household head per week in March 2017 was \$818.03.*

a. Explain the difference between 'absolute' and 'relative' poverty. In your answer, make use of the data presented in Table 2. 3 marks

- 1.5 marks for explaining the meaning of absolute poverty and contrasting it with relative poverty
- 1.5 marks for using the data from Table 2

Sample answer: *Absolute poverty refers to a person living in a situation where they have insufficient income to purchase the basic goods and services such as food, shelter and housing. In contrast, relative poverty occurs when a person or household has a low level of income compared to a generally agreed standard.*

The data presented in Table 2 refers to the Henderson poverty line, which is the measure of 'relative' poverty in Australia. As shown in the table, the poverty line refers to the level of income that household needs to be earning above in order to be living 'above the poverty line'. For example, a household made up of a two adults (a couple) and two children, where at least one of the parents is in the workforce would need to be receiving at least \$821.22 per week, after income tax, or they would be living in 'relative poverty'. The Henderson poverty line is a fixed proportion of the average household disposable income, and it has risen over time as Australia's income and wealth has increased.

b. Outline how poverty can impact on living standards, and explain one action the government can take to help reduce poverty. 3 marks

- 1 mark for explaining how poverty impacts living standards (either material or non-material)
- 1 mark for identifying one action the government can take to reduce poverty
- 1 mark for explaining how the action will help reduce poverty

Sample answer: Poverty (whether absolute or relative) is typically associated with poor outcomes for health and education of those family members living in poverty. Children living in poverty are less likely to be engaged at school, resulting in lower skill levels and an increased likelihood of being unemployed as an adult.

One action the government can take to help reduce poverty is to provide non-cash benefits to lower income households. These non-cash benefits can include subsidised housing, transport and health concessions, and energy rebates. The provision of these non-cash benefits mean low-income households are able to use the income they do have to purchase other goods and services that may enhance their quality of life and standard of living. It also means that more households in Australia will be able to avoid absolute poverty.

Question 3 (3 marks)

Australia has a 'progressive income tax system', where the proportion of income paid in tax increases as income increases.

Explain how a decision by the government to increase the top tax rate paid by high-income earners illustrates the potential conflict between improving efficiency and improving equity in income distribution.

- 1.5 mark for explaining how increasing the progressivity of the income tax system improves equity
- 1.5 mark for explaining how increasing the progressivity of the income tax system worsens productive efficiency

Sample answer: A progressive income tax system is one method used by the Australian Government to help improve equity in income distribution. Under a progressive income tax system, the proportion of income paid as tax increases as one's income increases. Increasing the top tax rate paid by high-income earners means that high-income earners will pay significantly more income tax than low-income earners, so that the majority of the tax burden falls on those who have the greatest capacity to pay. This type of tax system works to effectively redistribute income from high to low-income earners and having means that income distribution in Australia becomes less unequal after income tax is paid. In addition, any additional revenue collected by increasing the top marginal income tax rate could be used to provide income support and other services-in-kind to support low-income earners.

However, since such an increase will mean that high-income earners will have to pay a larger proportion of their income in tax, it may discourage productive (or entrepreneurial) effort. If the highest marginal tax rate is increased, this will mean that for each extra dollar earned, perhaps as a result of seeking a promotion or undertaking a more challenging role, a high-income earner will receive back less income after tax. Since extra effort and work intensity can help drive productivity growth in the economy, raising marginal tax rates for high-income earners can stifle productivity growth and reduce (productive) efficiency.

Question 4 (3 marks)

The government imposes excise taxes on some goods considered harmful, such as tobacco, alcohol and petrol. For the next four years, the government will increase tobacco excise by 12.5% each September.

Explain how the increase in tobacco excise could improve efficiency in allocation of resources while at the same time reducing equity in the distribution of income.

- 1.5 mark for explaining how increasing the excise improves allocative efficiency
- 1.5 mark for explaining how increasing the excise can worsen equity

Sample answer: *Imposing high (and increasing) excises on tobacco is intended to send a price signal (raising the price of the product) that discourages consumption and therefore reduces the harm caused by tobacco consumption. The resources previously allocated to production and consumption of demerit goods like tobacco would then be available to be reallocated to purposes that are better for society, improving the level of allocative efficiency (where resources are allocated to produce goods and services that provide the maximum possible benefits to society.)*

However, excises such as those on tobacco are regressive taxes. These are taxes that collect proportionally more of a lower income earner's income compared to the proportion of tax collected from a higher income earner's income. Because the excise is paid as a percentage of the price of the product, everyone who purchases tobacco products, such as cigarettes, pays the same amount of excise per item, regardless of their level of income. This means that the amount of tax (excise) paid represents a larger proportion of a low-income earner's income than that of a high-income earner's income. These taxes can reduce equity in the distribution of income, as they impact more heavily on those on lower incomes.

[On the other hand, it could also be argued that if the high rate of excise sends a price signal that discourages low-income earners from purchasing the product this could improve equity in income distribution, since it will leave them with more income to dedicate to purchasing other less harmful products.]

Note: *Square bracketed section is not required for full marks*

SECTION D
PART 1: MULTIPLE CHOICE (6 MARKS)
GLOBAL ECONOMIC ISSUE: ECONOMIC GLOBALISATION

1	A	B	C	D
2	A	B	C	D
3	A	B	C	D

Question 1

Which of the following is not considered a factor contributing to economic globalisation?

- A. The desire of large businesses to take advantage of improved economies of scale
- B. Improvements in transportation technologies, information technology and global communications
- C. Recent decisions by some governments to restrict the flow of labour and trade, and favour local producers*
- D. Savings offered by differentials in wage rates across different countries

Question 2

Australia has been affected by globalisation in all of the following ways, except

- A. Decreased costs and more availability of imports, which has benefitted households and some businesses
- B. Jobs have been gained in service industries, because technology has allowed more Australian companies to provide call centre services for overseas corporations*
- C. Jobs have been lost in manufacturing, as Australian companies have relocated manufacturing facilities overseas in response to lower labour costs
- D. National income has risen as mining companies increased output to meet growing demand from China, India and other rapidly-growing economies

Question 3

Which of the following is least likely to be considered a benefit of the rise of multinational corporations under globalisation?

- A. Multinational corporations often pay higher wages than local producers in developing countries
- B. Multinational corporations are increasingly being pressured by customers to adopt Fairtrade practices
- C. Multinational corporations increase business investment and capital stock in countries where they operate
- D. Multinational corporations often repatriate their after-tax profits to their country of origin*

SECTION D
PART 2: STRUCTURED QUESTIONS (14 MARKS)
GLOBAL ECONOMIC ISSUE: ECONOMIC GLOBALISATION

Question 4 (9 marks)

a. Define economic globalisation

1 mark

- 0.5 mark for simply stating that economic globalisation refers to the global market
- 1 mark for an accurate definition of economic globalisation

***Sample answer:** Economic globalisation refers to the integration of the world's economy towards operating as one single market, brought about by the removal of trade and other barriers between the economies of countries all around the globe.*

b. Explain how the following factors have contributed to the continuing growth of economic globalisation.

4 marks

i. Deregulation of key markets

- 1 mark for explaining what is meant by deregulation of key markets with an example
- 1 mark for linking deregulation to the rise or continuation of economic globalisation

***Sample answer:** One key factor contributing to the growth of economic globalisation has been the removal of government regulations and restrictions on the operations of international trade, finance and the movement of labour. For example, many developing countries have created Export Processing Zones (EPZs) which are geographic regions that country's government delineates for the purposes of attracting investment. In these zones, tax rates are very low by international standards, and other restrictions such as labour laws are relaxed. Large corporations, such as multinationals, can be attracted to set up production facilities in these EPZs to take advantage of the more relaxed operating environment, and this has seen a growth of the interationalisation of production.*

ii. Improvements in information and communication technologies

- 1 mark for linking ICT to the rise or continuation of economic globalisation
- 1 mark for relevant examples

***Sample answer:** A second key factor contributing to the emergence and continued growth of globalisation has been rapid advances in information and communication technologies. Developments such as electronic funds transfer, broadband internet, video streaming, VoIP (Voice over Internet Protocol) and instant messaging are all examples of how developments in ICT have allowed the global economy to become more integrated. For example, extremely cheap and efficient telecommunications systems have allowed many Australian corporations to offshore [locate overseas] their call centres, and thereby take advantage of lower labour costs in developing countries such as India and the Philippines.*

- c. Critics of economic globalisation claim that one reason globalisation is controversial is that it has created 'winners' and 'losers'.

Identify one stakeholder group in Australia that has **benefited** from globalisation and one stakeholder group that has been **disadvantaged** by the spread of economic globalisation. For each group, explain how they have been impacted by economic globalisation. 4 marks

'Winner/s' from globalisation:

- 0.5 marks for identifying an Australian stakeholder group that has benefited globalisation
- 1.5 marks for explaining how this groups has benefited from globalisation

Sample answer: One group of 'winners' from globalisation has been Australian households as consumers. Economic globalisation has resulted in Australian consumers having access to a wider variety of goods and services produced all over the world, including global brands and trends. Australian consumers have also benefited from lower prices as global manufacturers took advantage of lower labour costs in developing countries and the Australian government reduced restrictions on trade. In fact, globalisation has meant that many of the items that used to account for a large proportion of households spending, such as TVs, clothing and cars, have actually fallen in price over the last thirty years.

'Loser/s' from globalisation:

- 0.5 marks for identifying an Australian stakeholder group that has been disadvantaged by globalisation
- 1.5 marks for explaining how this group has been disadvantaged by globalisation

Sample answer: One group of 'losers' from globalisation has been Australian workers in industries which have been exposed to global competition. This has included workers in manufacturing, many of whom have lost their jobs as corporations relocated production facilities from high-labour cost economies like Australia, to low labour costs economies in the emerging markets of China and south east Asia. The latest round of 'losers' is those in banking and call centres. Technology has allowed Australian companies to relocate their 'back office' administration support and call centre roles overseas in order to reduce costs.

Question 5 (5 marks)

The Turnbull government's "Google tax" has been passed into law...[The] Diverted Profits Tax (DPT) is aimed at multinationals with global revenue of more than \$1 billion and Australian revenue of greater than \$25 million. They will be hit with a 40 per cent tax on all profits - that is 10 per cent higher than the 30 per cent company tax rate.

... It aims to ensure that the tax paid by global entities properly reflects the economic substance of their activities in Australia and prevents the diversion of profits offshore through contrived arrangements. [The tax will] commence on July 1 2017, [and should] raise about \$100 million in revenue a year from 2018-19.

Treasurer Scott Morrison announced the legislation in the 2016-17 budget in response to public outcry over companies shifting billions of dollars in profits each year to lower tax nations.

Oxfam Australia spokeswoman Joy Kyriacou welcomed the passing of the DPT laws ... 'ATO data shows more than one in three big companies are paying no tax. ... Big companies operating from Australia should be required to be transparent and publicly report on their profits,... so it's harder for them to dodge paying their fair share,' she said.

Edited extract from: 'Australia now officially has a 'Google tax': Diverted Profits Tax law passed Parliament', Sydney Morning Herald, 28th March 2017

With reference to the extract above, explain why the government introduced the Diverted Profits Tax, and evaluate the impact of multinational corporations on Australia, from an economic perspective.

- 1 mark for explaining why the government has introduced the DPT.
- 2 marks for identifying and evaluating at least one negative economic impact of MNCs.
- 2 marks for identifying and evaluating at least one positive economic impact of MNCs.

Sample answer: *The government's Diverted Profits Tax is designed to collect more tax from large multinational corporations – which are companies based in one country but operating across many countries. The government and the community have been concerned that MNCs [such as Google, from which the tax receives its colloquial name] are shifting profits earned on their Australian operations without paying the tax they should to the Australian government.*

The actions of these companies and the government's response highlights one of the potential negative economic impacts of MNCs – that they are likely to repatriate the profits earned in countries like Australia back to their home country. In recent times, the Australian government and community have become increasingly concerned that these corporations are using complex tax arrangements to avoid paying tax to the Australian government on the profit they have earned on their sales in Australia. This can have a negative impact on the Australian government budget outcome because the reduction of tax revenue can make it more difficult to balance the budget. It can also reduce the ability of the government to use taxation revenue to support social and economic programs that benefit all Australians.

On the other hand, MNCs also create jobs in countries like Australia, adding to the circular flow of income and production for the economy. For example, corporations like Google, Microsoft and Apple all have local branches employing local workers. They also provide training in global 'best practice' for the local workers.

SECTION E
PART 1: MULTIPLE CHOICE (6 MARKS)
GLOBAL ECONOMIC ISSUE: PROBLEMS FACING DEVELOPING NATIONS

1	A	B	C	D
2	A	B	C	D
3	A	B	C	D

Question 1

Of the strategies listed, which is unlikely to promote economic growth and development for developing nations?

- A. The use of tariffs and subsidies by developed nations, to restrict imports of primary products
- B. Promoting the rule of law and a reduction in corruption
- C. Increased support to help improved education and health levels in the workforce
- D. Bilateral foreign aid used to develop governance and promote the role of women in the economy

Question 2

Which of the following is not an example of Official Development Assistance (foreign aid)?

- A. The Australia government sends Australian teachers to provide training for teachers in Papua New Guinea primary schools
- B. A \$10 million dollar donation from the Australian government to Oxfam Australia to provide support for residents of Vanuatu affected by Cyclone Donna
- C. Australian private hospital operator, Healthscope Ltd, opens a new hospital in China
- D. Australian payments to the UNHRC to operate refugee camps on the Syrian border

Question 3

Which of the following statements is least accurate?

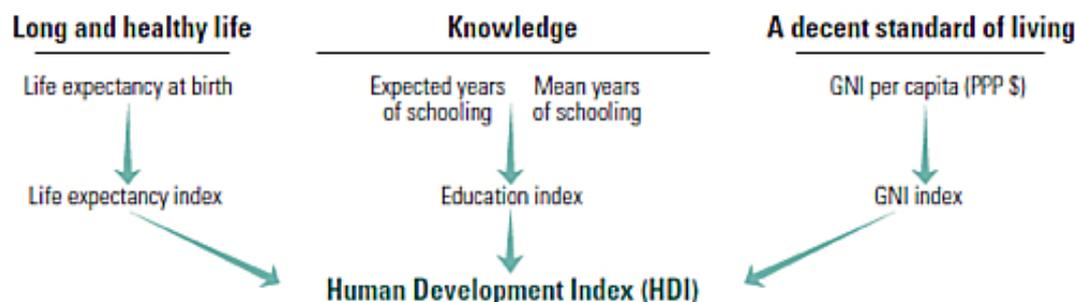
- A. High levels of indebtedness have contributed to worsening conditions in some developing countries
- B. Debt should be avoided by developing countries, as it usually leads to worsening conditions
- C. Insufficient savings can be a cause and effect of poverty
- D. High levels of income inequality exist in many less developed economies

SECTION E
PART 2: STRUCTURED QUESTIONS (14 MARKS)
GLOBAL ECONOMIC ISSUE: PROBLEMS FACING DEVELOPING NATIONS

Question 4 (14 marks)

Examine Figure 1 and Table 1 below, and answer the questions that follow.

Figure 1: Dimensions of the Human Development Index (HDI)



Source: Human development report 2016, United Nations Development Programme, 2016, <http://hdr.undp.org/en/content/human-development-index-hdi>

Table 1: Various countries, HDI score, 2015

Country	Human Development Index score (2015)	Country	Human Development Index score (2015)
Argentina	0.827	Haiti	0.493
Australia	0.939	Indonesia	0.689
Belgium	0.896	Lao	0.586
Benin	0.485	Mexico	0.762
Bhutan	0.607	Niger	0.353
Bolivia	0.674	Philippines	0.682
Brazil	0.754	Russian Federation	0.804
Burkina Faso	0.402	Rwanda	0.498
Cambodia	0.563	Slovenia	0.890
Cameroon	0.518	South Africa	0.666
Chile	0.847	Sri Lanka	0.766
China	0.738	Turkey	0.767
Denmark	0.925	United Kingdom	0.909
Dominican Republic	0.722	United States	0.920
Finland	0.895		

Source: Human development report 2016, United Nations Development Programme, 2016, <http://hdr.undp.org/en/content/human-development-index-hdi>

a. Define economic development.

1 mark

- 0.5 mark for stating that economic development refers to a country improving its economy
- 1 mark for an accurate definition of economic development

Sample answer: *Economic development refers to improvements in the economic well-being of a nation, including material and non-material factors, such as growth in incomes and wealth, and access to health, education and social advancement.*

b. With reference to the information in Figure 1, explain why the Human Development Index (HDI) can provide a better indicator of a country's economic development than GDP per capita. 3 marks

- 1 mark for outlining the structure of the HDI, with reference to the dimensions in Figure 1
- 2 marks for explaining why the dimensions measured in the HDI provide a better insight into economic development than a measure of output like GDP per capita

Sample answer: *The HDI is composite statistic. It measures performance in three key dimensions of development in a country – a decent standard of living as measured by GNI per capita, a long and healthy life, as measured by life expectancy at birth, and knowledge as measured by expected years of schooling and average years of schooling. Performance in each of these measures is combined to create an HDI score. The closer the HDI score is to 1, the higher the level of human development in that country.*

The HDI provides a more comprehensive indicator of both material and non-material standard of living in a country compared to GDP per capita, since GDP per capita focuses on the level of output in the country. If income distribution in the country is highly unequal, as is the case in many developing countries, it is very unlikely that the GDP per capita will give an accurate indication of the access to goods and services for all citizens. It is also possible for a country to have a very high level of GDP per capita (or income) and yet still rank below other less wealthy countries in the HDI score, because of its relatively low levels of education or life expectancy. Improvements in education and life expectancy are key elements of economic development and it is for this reason that the inclusion of these measures means the HDI is a superior indicator of country's economic development.

c. Complete the table below by identifying the two countries with the highest levels and the two countries with the lowest levels of human development in Table 1. 2 marks

- 0.5 mark per correct answer

Countries with highest levels of human development	Countries with lowest levels of human development
1. Australia (0.939)	1. Niger (0.353)
2. Denmark (0.925)	2. Burkina Faso (0.402)

d. Explain how two of the problems listed below (i – vi) can contribute to low HDI levels in developing countries.

- i. **Limited productive resources (including labour and capital)**
- ii. **High levels of indebtedness**
- iii. **Gender inequality and lack of a role for women in economy and society**
- iv. **High levels on income inequality**
- v. **Inequities in the global system of trade**
- vi. **Corruption and government mismanagement**

4 marks

- 1 mark for a superficial explanation of how the problem contributes to low economic development
- 2nd mark for a more detailed explanation of how the problem contributes to low economic development
- Repeat for the second problem

Note 1: Students need address only two problems; however, sample answers have been provided for each problem.

Note 2: In the event that a student writes about 3 or more problems, only the first two should be assessed.

Sample answers:

i. *Limited productive resources (including labour and capital)*

Many developing countries lack productive capacity. Low levels of education and high levels of illiteracy are common in many poor countries, meaning that labour often has low levels of productivity. In addition, a lack of savings and access to capital for investment means that many developing countries lack infrastructure. This in turns leads to low levels of output, and low incomes, leaving people with little spare income for saving, creating a poverty trap for developing countries. In addition, low incomes means governments can find it difficult to collect sufficient taxation, and so the provision of basic services can be limited. Consequently, developing countries have relatively low levels of income, education and healthcare, all contributing to the countries' poor performance on the HDI.

ii. *High levels of indebtedness*

Some of the world's poorest countries have extremely high levels of debt. While borrowing money can be necessary for many countries to fund their development, all debt must be serviced (interest and principal must be repaid). For the very heavily indebted poorest countries of the world - like Niger, which has among the lowest levels of HDI in the world - the situation can be dire. For these countries, the debt has grown to a point where large amounts of the countries' national income need to be diverted into repaying the debt. For these countries, the opportunity cost of repaying the debt is the value of possible spending on education, healthcare and infrastructure that has had to be foregone, and a subsequent worsening of the levels of human development in those countries.

iii. *Gender inequality and lack of a role for women in economy and society*

In many developing countries, women lack much of a role in decision making at both the family and political level. In many poor countries, women still die in childbirth at alarming rates, and large numbers of women in poor countries are in vulnerable employment. The lack of a role for women in the economies of many developing countries means that the vast majority of the world's poor are actually women and girls. According to some economists, women are one of the

world's 'great untapped resources.' Countries with low levels of gender inequality tend to rank more highly on HDI scores, and countries with high levels of gender inequality tend to have lower HDI scores.

iv. High levels on income inequality

Income inequality in poor, developing countries is generally greater than it is in developed, richer nations. There appears to be a correlation between high-income countries and lower Gini coefficients, while low-income countries tend to have higher Gini coefficients on average. A high level of income inequality can be bad for economic development. In countries where the majority of the population have very low incomes, they will spend all of their income on consumption, creating a savings deficit that reduces the capital available for investment and development. If a small proportion of the country's population receives most of the income, then levels of spending in the country are likely to be relatively low, resulting in low levels of production. All of these factors contribute to lower levels of economic development.

v. Inequities in the global system of trade

Governments in many rich, developed countries continue to provide large subsidies to their domestic producers of agricultural products. This encourages excess production that can then be exported cheaply. Poor, developing countries often have economies that are heavily dependent on the export of agricultural commodities. Developing countries find it hard to compete against the subsidised agricultural exports of rich countries, and experience reduced income from their exports. It can also be cheaper for developing countries to import some food from large US companies than to make it in their own countries. The inequities of global trade can reduce the incomes of developing countries, leading to lower levels of human and economic development.

vi. Corruption and government mismanagement

Corruption refers to dishonest or fraudulent conduct by those in power, often involving the use of government assets for personal gain. High levels of corruption and financial mismanagement have been an unfortunate feature of many governments in very poor countries, particularly those ruled by dictatorships. Leaders can end up making decisions about government spending and priorities that favour their own interests, instead of improving the lives of their citizens. This also leads to less willingness of overseas and local corporations to invest in these countries, as they fear they may not be able to do business safely. Both the diversion of public funds and the unsafe environment for business contribute to lower levels of service provision and poor economic and human development.

e. Identify and explain one type of Official Development Assistance (ODA) – also called foreign aid - that could be used to improve the HDI score of the most lowest ranked countries. 2 marks

- 1 mark for identifying and explaining one type of ODA
- 2nd mark for explaining how the ODA could improve human development in poor countries

Sample answer: *ODA, or foreign aid, refers to the provision of money or other forms of assistance from developed countries to developing nations, with the aim of improving economic development. One example of foreign aid is technical assistance. Many developing countries like Australia provide technical assistance to train local staff and improve the levels of skills and education in developing nations. For example, Australia provides support in the development of policing and national security forces in Papua New Guinea, and improving education programs and training teachers in Afghanistan. Australia could provide similar training to education programs to assist those countries ranked lowest on the HDI.*

f. Explain one economic reason why Australia chooses to provide Official Development Assistance (ODA). 2 marks

- 1 mark for a superficial explanation of the economic benefits of ODA for Australia
- 2nd mark for a more detailed explanation of the economic benefits of ODA for Australia

Sample answer: *From 2016-17, the Australian government will focus almost 20% of its aid budget on 'aid for trade' – a program focused on helping developing countries to address their internal constraints to trade. The government believes this program will have long-term benefits for both the countries receiving the 'aid for trade' and Australia. They believe that countries can only achieve strong and lasting economic development if they participate effectively in international trade. In the future, Australia will also earn income from exporting to those countries it has helped to engage more closely in the global economy. This should increase Australia's AD and economic growth over time.*

Note: Students whose answers focus on social or humanitarian reasons for ODA should receive a maximum of 1 mark.

SECTION F

MULTIPLE CHOICE QUESTIONS [11-25]

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
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

Question 11

If economic growth is negative, overall living standards may still increase if

- A. nominal GDP per capita falls
- B. there is increased access to health and education services*
- C. there is increased levels of pollution and environmental damage
- D. population decreases by the same amount as economic growth

Question 12

Of the following events, which is not likely to cause an increase in the aggregate demand for goods and services?

- A. A decrease in the value of the Australian dollar (depreciation of the exchange rate)
- B. A decrease in interest rates
- C. A decrease in income tax rates
- D. A decrease in consumer confidence*

Question 13

The main cause of income inequality is

- A. Low income earners not receiving enough transfer income
- B. Government provision of social welfare payments leading to people not working hard enough
- C. Luck
- D. Higher income earners having skills that get them higher paid jobs*

Question 14

Disposable income is defined as

- A. Private or market incomes plus direct cash benefits received from governments
- B. Gross income less direct taxes plus indirect government benefits provided in the form of goods and social services
- C. Gross income less the direct taxes levied by governments*
- D. Gross incomes less direct and indirect taxes plus indirect government benefits

Question 15

A negative externality in production is most accurately described as when

- A. the costs associated with production tending to increase over time
- B. a service being consumed imposes a cost on someone who is not involved in the consumption (e.g. loud music at a party affecting neighbours)
- C. the level of output of goods or services cannot keep up with spending, causing inflation
- D. all the costs of production (including those experienced by people not involved in production or consumption) are not paid for by the producer of a product*

Question 16

Which of the following is a factor affecting both aggregate demand and aggregate supply?

- A. business confidence
- B. productivity
- C. interest rates*
- D. favourable weather conditions

Question 17

The rate of economic growth in Australia is likely to fall in response to

- A. Higher commodity prices
- B. A reduction in interest rates
- C. A depreciation of the Australian dollar exchange rate
- D. A reduction in the rate of economic growth in China*

Question 18

Which of the following is most likely to indicate an improvement in material living standards?

- A. increased incidence of crime
- B. increased carbon emissions per capita
- C. increased real GDP per capita*
- D. increased nominal wages

Question 19

Examine the two D/S diagrams demonstrating different types of labour markets and choose the most correct statement.

Diagram A

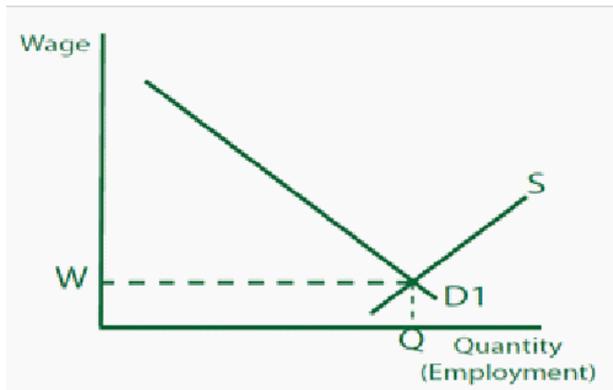
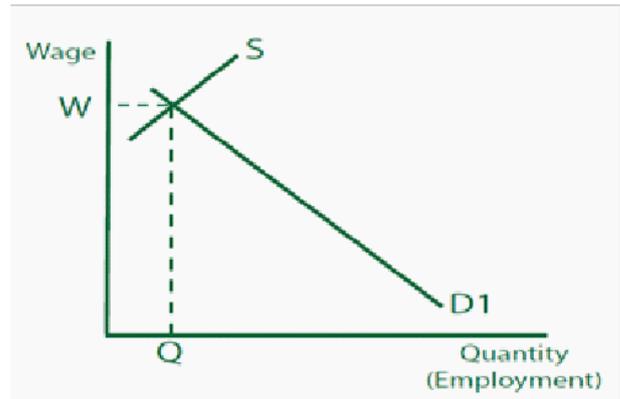


Diagram B



- A. Diagram A shows a labour market where the supply of labour is low relative to demand, leading to low wages
- B. Diagram A shows a labour market where the supply of labour is high relative to demand, leading to low wages**
- C. Diagram B shows a labour market where demand for labour is high relative to supply, leading to low wages
- D. Diagram B shows a labour market where supply of labour is high relative to demand, leading to high wages

Question 20

An equitable distribution of income refers to

- A. each member of the economy receiving an equal share of total income
- B. the way in which income is shared among the members of an economy
- C. a distribution of income that allows everyone to receive sufficient income for a dignified life**
- D. the elimination of relative poverty

Question 21

If Fairwork Australia were to reduce the minimum wage significantly, which of the following is the most likely result?

- A. A lower Gini coefficient
- B. A movement outwards of the Lorenz curve**
- C. A more equal distribution of income
- D. A decrease in absolute poverty

Question 22

Which of the following factors would have an effect on Australia's future rate of economic growth that is different to the other three?

- A. An increase in the rate of permanent skilled immigration
- B. An increase in the average age of the population**
- C. An increase in the labour force participation rate
- D. An increase in government spending on early childhood education

Question 23

An improvement in productive (technical) efficiency would result from each of the following events, apart from

- A. Increased spending on worker training and education
- B. Increased expenditure on capital
- C. Workers' real wages growing more slowly than the increase in labour productivity
- D. Increased costs of raw materials*

Question 24

Examine the following information and answer the question that follows.

Table: Distribution of income by quintiles

Quintiles	Percentage share of total income		
	Year 1	Year 2	Year 3
Lowest 20%	5	5	3
2nd	11	10	9
3rd	14	15	15
4th	25	24	24
Highest 20%	45	46	49
Gini Coefficient	0.31	0.32	0.35

The table above reveals that

- A. The highest income group has increased their share of total income between Year 1 and Year 3*
- B. The lower income groups have maintained their share of total income between Year 1 and Year 3
- C. The lower incomes groups have experienced a fall in the real income between Year 1 and Year 3
- D. Income distribution became more equal between Year 1 and Year 3.

Question 25

In relation to the Australian economy during 2017, which of the following statements is most accurate?

- A. Economic growth has been above 3%, inflation has been below 3% and the Australian dollar has ranged between 0.70USD and 0.80USD
- B. Economic growth has been below 3%, inflation has been above 3% and the Australian dollar has ranged between 0.75USD and 0.85USD
- C. Economic growth has been below 3%, inflation has been below 3% and the Australian dollar has ranged between 0.70USD and 0.80USD*
- D. Economic growth has been above 3%, inflation has been above 3% and the Australian dollar has ranged between 0.75USD and 0.85USD

END OF SUGGESTED RESPONSES