

# VCE Economics

## Written examination – End of year

### Sample questions

#### SECTION A – Multiple-choice questions

##### Question 1

An unregulated market will tend to over-allocate resources towards the production of

- A. public goods.
- B. government services.
- C. goods that cause negative production externalities.
- D. services that convey positive production externalities.

##### Question 2

Common access resources tend to be over-consumed in an unregulated market because they are

- A. rivalrous and excludable in consumption.
- B. rivalrous and non-excludable in consumption.
- C. non-rivalrous and excludable in consumption.
- D. non-rivalrous and non-excludable in consumption.

##### Question 3

The government recently increased the excise on tobacco products by 12.5% per year for four years. This is likely to lead to

- A. a decrease in the equilibrium price and a decrease in demand.
- B. a decrease in the equilibrium price and a contraction in supply.
- C. an increase in the equilibrium price and an expansion in supply.
- D. an increase in the equilibrium price and a contraction in demand.

##### Question 4

The type of unemployment caused by a downturn in the business cycle is known as

- A. cyclical unemployment.
- B. seasonal unemployment.
- C. structural unemployment.
- D. hard-core unemployment.

**Question 5**

Intertemporal efficiency refers to allocating resources to produce

- A. investment goods.
- B. non-durable consumer goods.
- C. goods and services for export.
- D. goods for current consumption and future consumption.

**Question 6**

Consider the following data for Country Y.

	2014	2015	2016	2017
<b>Consumer Price Index (CPI)</b>	100	103	105	104

Based on the information above, which one of the following statements is **not** true?

- A. The country experienced deflation in 2017.
- B. The country experienced deflation in 2016 and 2017.
- C. Over the four-year period, the general level of prices rose.
- D. The inflation rate in 2015 was higher than it was in 2016.

**Question 7**

The effect of an increase in consumer confidence is likely to lead to

- A. a decrease in the general level of prices and a decrease in real GDP.
- B. an increase in the general level of prices and a decrease in real GDP.
- C. a decrease in the general level of prices and an increase in real GDP.
- D. an increase in the general level of prices and an increase in real GDP.

**Question 8**

Which one of the following is a weakness of using monetary policy to achieve the Australian Government's macroeconomic goals?

- A. Monetary policy does not require political approval.
- B. Indebted households are very sensitive to interest rate changes.
- C. Banks are not legally required to pass on any changes in the cash rate.
- D. Monetary policy can be changed relatively quickly in response to changing economic circumstances.

**Question 9**

Which one of the following discretionary budgetary policy initiatives is unlikely to increase aggregate supply?

- A. a reduction in company taxes
- B. a reduction in pensions for retired couples
- C. increased spending on preventive healthcare
- D. the introduction of new subsidies for entrepreneurial pursuits

**Question 10**

Which one of the following is unlikely to cause an increase in Australia's terms of trade?

- A. an appreciation of the exchange rate
- B. a decrease in the world supply of coal
- C. an increase in the use of solar energy in the world economy
- D. an increase in the real incomes of Australia's major trading partners

**Question 11**

Which one of the following budgetary policy areas will have an impact on aggregate supply in a manner that is different from the other three?

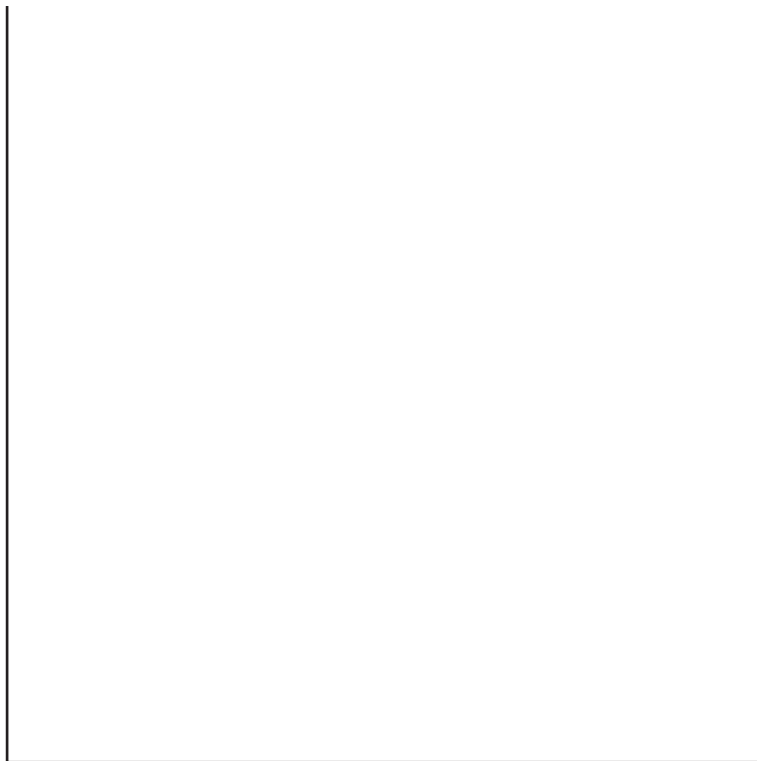
- A. subsidies
- B. investment in infrastructure
- C. research and development grants
- D. spending on training and education

**SECTION B – Written responses****Question 1** (12 marks)

Consider the following data for hamburgers sold in Melbourne’s central business district each day.

Price	Quantity demanded (per day)	Quantity supplied (per day)
\$2	120 000	0
\$4	100 000	20 000
\$6	80 000	40 000
\$8	60 000	60 000
\$10	40 000	80 000

- a. Referring to the data for hamburgers, construct a suitably labelled demand and supply diagram to show how the equilibrium price and quantity traded are determined. 4 marks



**b. i.** Describe **one** factor that could lead to an increase in demand for hamburgers. 2 marks

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**ii.** Draw the change in demand, caused by the factor described above, on the diagram constructed in **part a**. 1 mark

**iii.** Describe how the market for hamburgers will move from the initial equilibrium to the new equilibrium following the change in demand. 3 marks

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- c. Explain **one** factor that might cause a decrease in the equilibrium price of hamburgers and result in a movement along the demand curve.

2 marks

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**Question 2** (9 marks)

‘Free and competitive markets should lead to an allocation of resources that maximises society’s wellbeing.’

- a. With reference to the statement above, evaluate the role of markets in achieving an efficient allocation of resources.

6 marks

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**Question 5** (7 marks)

- a.
  - i. Describe **one** example of government intervention in a market that has led to a change in the equilibrium price and/or quantity of a good or service. 2 marks
  - ii. Show how the market has changed on the axes provided below. 2 marks

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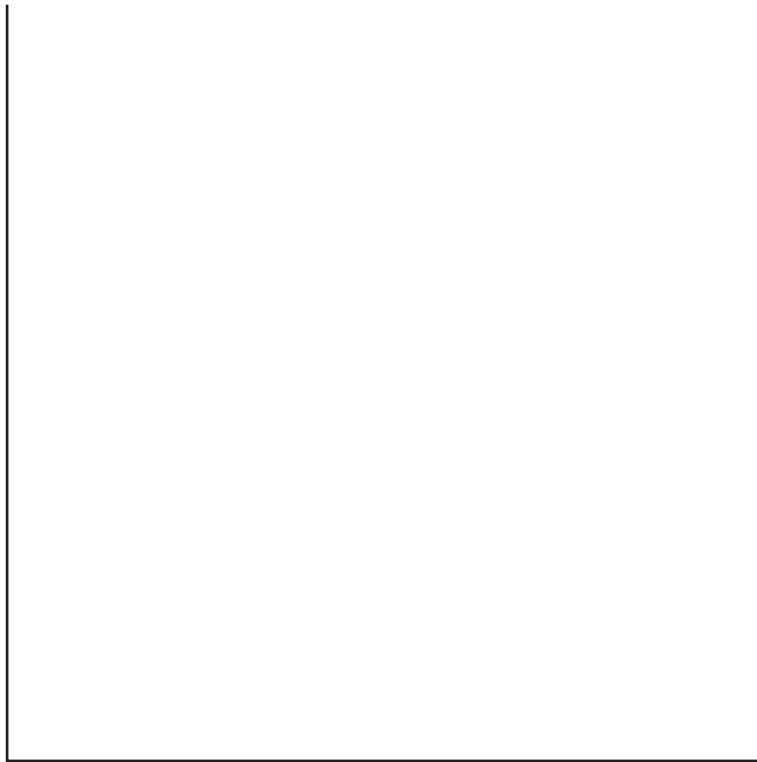
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**Question 8** (3 marks)

The following table shows data for a hypothetical economy.

	Nominal GDP (\$ billion)	Real GDP (\$ billion)
2015	100	100
2016	105.3	102.3

- a. Using the information above, calculate the rate of economic growth for the hypothetical economy.

1 mark

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- b. Explain **one** reason why economic growth might be associated with a decrease in living standards.

2 marks

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**Answers to multiple-choice questions**

<b>Question</b>	<b>Answer</b>
1	C
2	B
3	D
4	A
5	D
6	B
7	D
8	C
9	B
10	C
11	D