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Name \_\_\_\_\_

## VCE ECONOMICS 3/4

# CPAP Practice Examination No. 2

Reading time: 15 minutes

Writing time: 2 hours

### QUESTION AND ANSWER BOOK

#### Structure of book

Section	Number of questions	Number of questions to be answered	Number of Marks
A	15	15	15
B	3	3	65
			Total 80

- 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 of 21 pages.
- Answer sheet for multiple choice questions (page 22).
- Additional space is available at the end of the book if you need extra paper to complete an answer

#### Instructions

- Write your **student number** and **name** in the space provided above on this page.
- Check that your **name** and student number are written on your multiple choice answer sheet.
- All written responses must be in English.

#### At the end of this examination

- Place the answer sheet for multiple-choice questions inside the front cover of this book.

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

**Instructions for section A**

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

Choose the response that is **correct** or the **best answers** the question.

A correct answer scores 1, an incorrect answer scores 0.

Marks will **not** be deducted for incorrect answers.

No marks will be given if more than one answer is completed for any question.

**SECTION A**

**Question 1**

**Which of the following statements is true in relation to the difference between government current and capital expenditure?**

- A. Payments for defence equipment (e.g. tanks) is an example of current expenditure whilst payments to defence personnel (e.g. wages of soldiers) is an example of capital expenditure
- B. Capital expenditure typically creates benefits beyond the current budget period compared to current expenditure
- C. Spending on infrastructure is an example of current expenditure and the purchase of consumables by a hospital (e.g. rubber gloves and syringes) is an example of capital expenditure
- D. Total government spending on health and welfare outlined in the budget includes only current expenditure

**Question 2**

**Assume that a hypothetical economy has the following labour market statistics**

Total population	120 million
Working age population	100 million
Total employed	60 million
Job vacancies	1 million
Unemployed persons	20 million
Underemployed persons	20 million
Labour force	80 million

**Which of the following statements is correct?**

- A. The unemployment rate is 20%, the labour force underutilisation rate is 20% and the labour force participation rate is 80%
- B. The unemployment rate is 25%, the labour force underutilisation rate is 20% and the labour force participation rate is 60%
- C. The unemployment rate is 33%, the labour force underutilisation rate is 50% and the labour force participation rate is 60%
- D. The unemployment rate is 25%, the labour force underutilisation rate is 50% and the labour force participation rate is 80%

**Question 3**

**A rise in the trade weighted index is likely to occur if**

- A. There is a decrease in efficiency within the tradables sector of the Australian economy
- B. There is a fall in commodity prices
- C. A more expansionary monetary policy stance is delivered in most other countries
- D. Inflation rates decrease in Japan, the USA and China

**Question 4**

**In terms of the circular flow model of income in an open contemporary macroeconomy, a decrease in national savings is likely to:**

- A. Decrease injections relative to leakages and reduce economic growth in the short-term
- B. Decrease leakages relative to injections and increase economic growth in the short-term
- C. Decrease leakages relative to injections and decrease economic growth in the short-term
- D. Decrease leakages relative to injections and increase economic growth in the long-term

**Question 5**

**If the government provides a further increase in welfare payments (e.g. increased JobSeeker allowance) this is likely to have which of the following effects on both the budget outcome and aggregate demand?**

- A. an increase in the budget deficit and an increase in Government Consumption demand (G1)
- B. an increase in the budget deficit and an increase in Government Investment demand (G2)
- C. an increase in the budget deficit and an increase in Consumption demand (C)
- D. a decrease in the budget deficit and an increase in Government Consumption demand (G1)

**Question 6**

**Which of the following is most likely to reflect an increase in non-material living standards?**

- A. An increase in both real GDP per capita and real incomes per capita
- B. An increase mental illness associated with ongoing lockdowns during the COVID-19 pandemic
- C. An increase in crime rates
- D. An increase in the success of programs designed to vaccinate the population against the coronavirus

**Question 7**

**If an Australian mining company purchases \$1 billion of mining equipment and finances the purchase by selling shares in the company to foreign investors, the transaction will have which of the following effects in Australia's balance of payments?**

- A. Increase the Current Account Deficit, increase the Capital and Financial Account Surplus, and increase net foreign equities
- B. Increase the Current Account Deficit, increase the Capital and Financial Account Surplus, and increase net foreign debt
- C. Increase the Current Account Deficit, decrease the Capital and Financial Account Surplus, and increase net foreign debt
- D. Decrease the Current Account Deficit, increase the Capital and Financial Account Surplus, and decrease net foreign debt

**Question 8**

**If it is assumed that the government must deliver a budget outcome equal to zero on an annual basis, then**

- A. The government must reduce discretionary government expenditure during a boom phase of the business cycle
- B. The government must reduce revenue (e.g. raise tax rates) during a business cycle contraction
- C. Budgetary policy would be less effective at stabilising the business cycle
- D. None of the above are accurate

**Question 9**

Consider the following hypothetical Consumer Price Index (CPI) data.

Quarter	CPI
June 2021	100.0
Sep 2021	110.0
Dec 2021	120.0
Mar 2022	125.1
June 2022	119.7
Sep 2022	125.0
Dec 2022	132.0

Which of the following statements is correct?

- A. The annualised rate of inflation for the September quarter 2021 is 40% and the annual rate of inflation for the year to end December 2022 is 10%
- B. The annualised rate of inflation for the September quarter 2021 is 10% and the annual rate of inflation for the year to end December 2022 is 10%
- C. The annualised rate of inflation for the September quarter 2021 is 40% and the annual rate of inflation for the year to end December 2022 is 12%
- D. The annualised rate of inflation for the September quarter 2021 is 10% and the annual rate of inflation for the year to end December 2022 is 12%

**Question 10**

Which of the following will have an effect on international competitiveness that is different to the other three?

- A. The discovery of new mineral deposits in Western Australia
- B. A rise in the value of both the US and Chinese exchange rates
- C. Growth in inputs (such as hours worked) relative to output (e.g. production)
- D. A fall in the underlying rate of inflation

**Question 11**

The 2021 Intergenerational Report revealed that real GDP is projected to grow at 2.6% per year over the next 40 years, compared with 3.0% over the past 40 years. A factor that is not likely to contribute to this change is:

- A. Lower fertility rates
- B. Strong growth in immigration
- C. An ageing population
- D. The ongoing effects of unmitigated climate change

**Question 12**

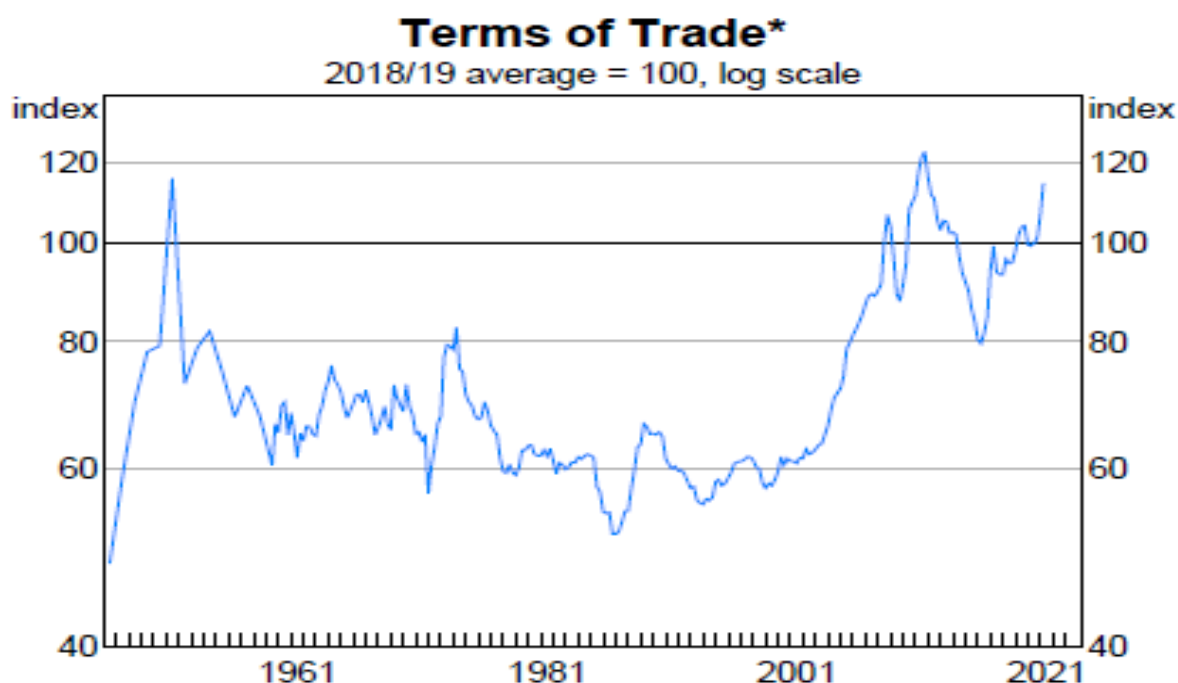
Which of the following will result in a higher equilibrium price and lower equilibrium quantity?

- A. A decrease in productivity
- B. A decrease in disposable income
- C. An increase in the price of a substitute
- D. A decrease in real unit labour costs

**Question 13**

Welfare and/or tax reform measures, such as lower tax rates, that encourage greater labour force participation is most likely to

- A. Increase the rate of unemployment in the short-term and exert upward pressure on wages
- B. Increase the rate of unemployment in the short-term and exert downward pressure on wages
- C. Decrease the rate of unemployment in the short-term and exert downward pressure on wages
- D. Decrease the rate of unemployment in the short-term and exert upward pressure on wages

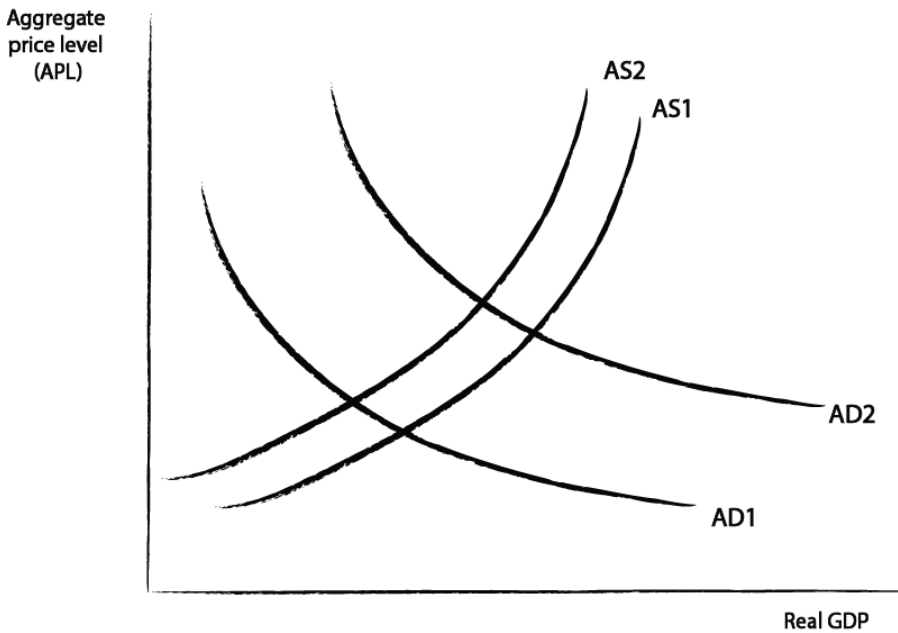
**Question 14**

The movement in the terms of trade over the past few years is likely to have:

- A. Contributed to an increase in the current account surplus, assisted with the achievement of full employment and increased living standards
- B. Contributed to an increase in the current account surplus and assisted with the achievement of full employment and decreased living standards
- C. Contributed to a decrease in the current account surplus, assisted with the achievement of full employment and increased living standards
- D. Contributed to an increase in the current account surplus, negatively impacted on the achievement of full employment and increased living standards

**Question 15**

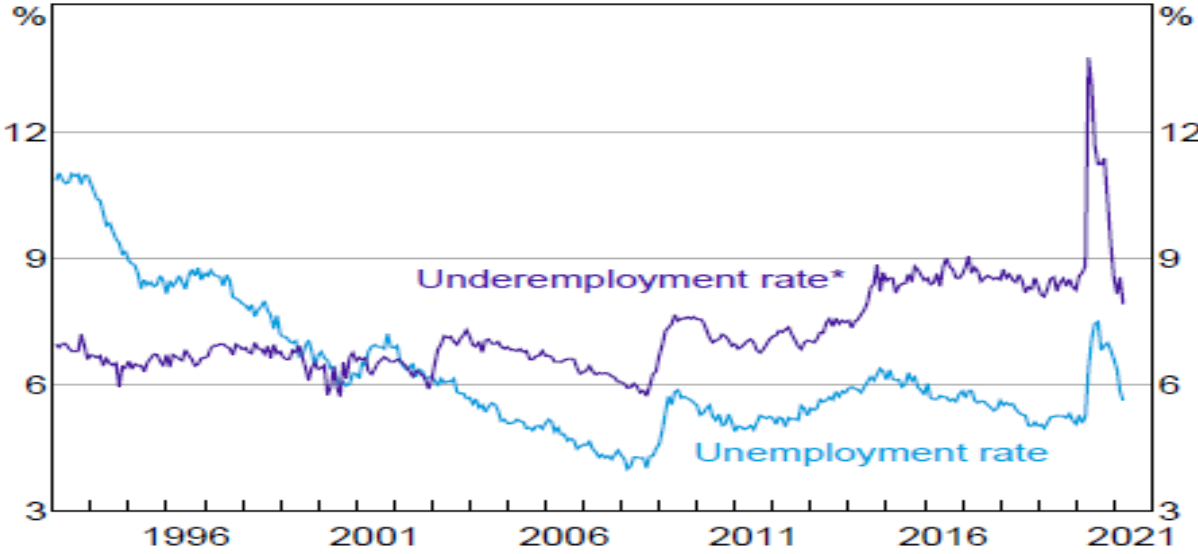
In relation to the aggregate demand (AD) and aggregate supply (AS) curves drawn below, which statement is accurate in terms of the likely causes and effects of the movements?



- A. Overseas rates of economic growth have increased and productivity has risen resulting in a stronger rate of economic growth and higher inflation
- B. The exchange rate has depreciated causing a higher rate of economic growth and higher inflation
- C. Consumer and business confidence have increased and labour costs have fallen resulting in a stronger rate of economic growth and lower inflation
- D. Technological advances and a decrease in the quality of factors of production have resulted in a stronger rate of economic growth and higher inflation

**Section B**  
**Question 1 (19 marks)**

**Labour Underutilisation Rates**  
 Heads-based



\* Full-time workers on reduced hours for economic reasons and part-time workers who would like, and are available, to work more hours  
 Source: ABS

a. Describe the 'trend' movement in the underemployment rate since 2011. 2 marks

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b. Outline one factor that accounted for the large increase in the underemployment rate over 2020.

3 marks

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c. Explain how each of the following might influence monetary policy settings over 2021-22.

- i. A lower labour force underutilisation rate (LFUR)
- ii. Continuing community lockdowns due to further COVID-19 outbreaks

6 marks

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**Net overseas migration has fallen over the past year due to border closures as more people have exited Australia (emigration) than entered Australia (immigration) and the government predicts a further fall over 2021-22.**

- d. Explain how the recent decline in net overseas migration (NOM) might influence wages growth and employment. 4 marks

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e. Describe how a recent factor or government policy initiative has contributed to a higher labour force participation rate (LFPR) and outline the implications for productive capacity of the economy.

4 marks

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**Question 2 (9 marks)**

- a. Assume that there is a decrease in the availability of substitutes in the market for product A.
  - i. Outline why the price elasticity of demand (PED) for product A will fall.
  - ii. Describe why a decrease in supply will impact differently on the market for product A following a reduction in the PED.

5 marks

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b. Outline one factor that might increase the competitiveness in a market and describe the impact it is likely to have on productive efficiency.

4 marks

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b. Describe the purpose of one recent government initiative and explain how it may have unintentionally decreased efficiency in the allocation of resources. 4 marks

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**Question 4 (26 marks)**

Following the recession of 2020, the government delivered structural changes to its most recent two budgets that were designed to support economic growth and jobs. The government also announced its new medium term fiscal strategy ‘to achieve budget balance on average over the course of the economic cycle’.

- a. Explain how a change to the structural component of the budget over the past two years may be assisting RBA efforts to achieve price stability. 4 marks

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b. Describe how the cyclical component of the budget may have influenced the estimated budget outcome for 2020-21. 4 marks

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c. Apart from selling bonds/government securities to the RBA, describe how the government can finance a budget deficit. 3 marks

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- e. Explain how a recent budgetary policy supply side initiative can help the government to achieve strong and sustainable economic growth. 4 marks

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f. Evaluate the effectiveness of budgetary policy over 2020-21 in achieving the goal of full employment.

6 marks

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COMMERCE PRESENTATIONS AND PUBLICATIONS



## VCE ECONOMICS 3/4 2021 Practice Examination No. 2

### 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