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Letter

Name _____

VCE ECONOMICS UNIT 3/4

CPAP Practice Examination B 2023

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.
- A scientific calculator is allowed in this examination

Materials supplied

- Question and answer book of 22 pages.
- Answer sheet for multiple choice questions (page 23).
- 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

Questions 1

Table 1: Australian Resident tax rates 2023–24	
Taxable income	Tax on this income
0 – \$18,200	Nil
\$18,201 – \$45,000	19c for each \$1 over \$18,200
\$45,001 – \$120,000	\$5,092 plus 32.5c for each \$1 over \$45,000
\$120,001 – \$180,000	\$29,467 plus 37c for each \$1 over \$120,000
\$180,001 and over	\$51,667 plus 45c for each \$1 over \$180,000

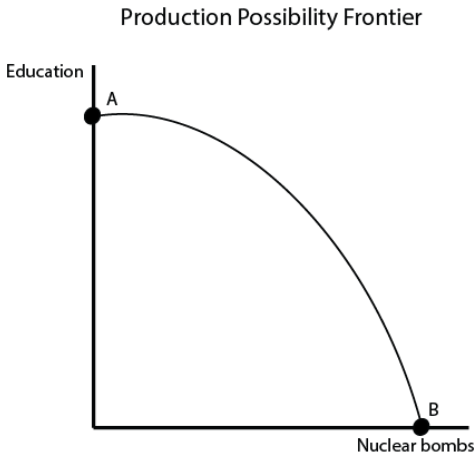
Source: www.ato.gov.au

The table above highlights that personal income taxes in Australia are:

- A. Direct and regressive
- B. Direct and progressive
- C. Direct and proportional
- D. Indirect and progressive

Question 2

Analyse the PPF model below which hypothetically shows the only production possibilities available to a government with \$500 million to spend on an investment project.



- A. Productive efficiency and allocative efficiency are likely to be achieved at points A and B
- B. Productive efficiency is likely to be achieved at points A and B, but allocative efficiency is only achieved at point B
- C. Allocative efficiency is likely to be achieved at points A and B, but productive efficiency is only achieved at point A
- D. Productive efficiency is likely to be achieved at points A and B, but allocative efficiency is only achieved at point A

Question 3

Which of the factors below is least likely to be a necessary condition for the existence of a perfectly competitive market?

- A. An absence of government intervention
- B. Lots of buyers and sellers
- C. Freedom of entry and exit into and out of the market
- D. perfect information

Question 4

The role of the RBA as outlined in its charter is to achieve all of the except:

- A. Price stability
- B. Low and stable exchange rate
- C. Full employment
- D. Economic prosperity and welfare of Australians

Question 5

Which of the following is least likely to be an example of an aggregate supply policy initiative that will assist aggregate demand policies in promoting non-inflationary economic growth over time?

- A. An increase in research and development tax concessions
- B. Expenditure on training and education
- C. Subsidies or grants to consumers to reduce cost of living pressures
- D. Investment in port and rail infrastructure

Question 6

Which of the following is most likely to be a cause of a downturn in the business cycle?

- A. A low level of interest rates
- B. A low rate of growth in the Consumer Price Index
- C. A high rate of growth in business confidence
- D. A high rate of growth in the exchange rate

Question 7

Which of the following combination of factors are not examples of aggregate demand and/or aggregate supply factors that will contribute to a stronger rate of economic growth?

- A. A lower exchange rate and a stronger terms of trade
- B. The end of a global conflict and lower interest rates
- C. Stronger business confidence and higher disposable income
- D. A higher trade weighted index and an increase in the number of government regulations

Question 8

A key difference between cyclical and structural unemployment is that:

- A. Structural unemployment will be zero when full employment is achieved, unlike cyclical unemployment which will usually be above zero
- B. Structural unemployment will typically be reduced via the use of expansionary monetary policy, unlike cyclical unemployment which requires budgetary policy supply initiatives
- C. Cyclical unemployment will be linked to the movement in economic growth whereas structural unemployment will be linked to changes in technology
- D. Cyclical unemployment is made up of hidden and disguised unemployment while structural unemployment is made up of long-term unemployment and frictional unemployment

Question 9

If the rate of unemployment increases above 6%, as it did in 2020, then it is likely to result in:

- A. An increase in living standards
- B. A reduction in the budget surplus
- C. An increase in the rate of inflation
- D. A reduction in government expenditure

Question 10

An increase in the number of skilled migrants entering Australia would be expected to:

- A. boost productivity and increase skills shortages
- B. reduce productivity and increase the unemployment rate
- C. boost productivity and shift the PPF to the right
- D. reduce the quality of the labour force and reduce house prices

Questions 11 and 12 relate to the increases in excise tax on alcohol (an indirect tax) during 2023.

Questions 11

An increase in excise tax on alcohol should result in:

- A. A higher budget surplus, a decrease in the relative price of soft drinks and lower beer consumption
- B. A higher budget surplus, an increase in the relative price of beer and higher beer production
- C. A lower budget surplus, a decrease in the relative price of soft drinks and lower beer consumption
- D. A higher budget surplus, an increase in the relative price of beer and higher beer consumption

Questions 12

Higher excise tax on alcohol will tend to have a significant (positive) impact on government revenue but a relatively insignificant (negative) impact on consumption if

- a) the price elasticity of supply for alcohol is low
- b) the price elasticity of supply for alcohol is high
- c) the price elasticity of demand for alcohol is low
- d) the price elasticity of demand for alcohol is high

Questions 13

In relation to the concepts of relative scarcity and opportunity costs, identify the statement below that is inaccurate.

- A. In Economics, money is an example of a scarce resource because it is limited
- B. The problem of relative scarcity creates opportunity costs
- C. The production possibility frontier (PPF) model can be used to demonstrate the concept of relative scarcity and opportunity cost
- D. In Economics, the three basic economic questions are related to the concept of relative scarcity

Question 14

Which of the following is likely to cause a cyclical increase in the current account deficit?

- A. A higher unemployment rate and an increase in government expenditure on income support
- B. An increase in the total demand for goods and services by Australians
- C. An increase in national savings
- D. A rise in productivity and international competitiveness

Question 15

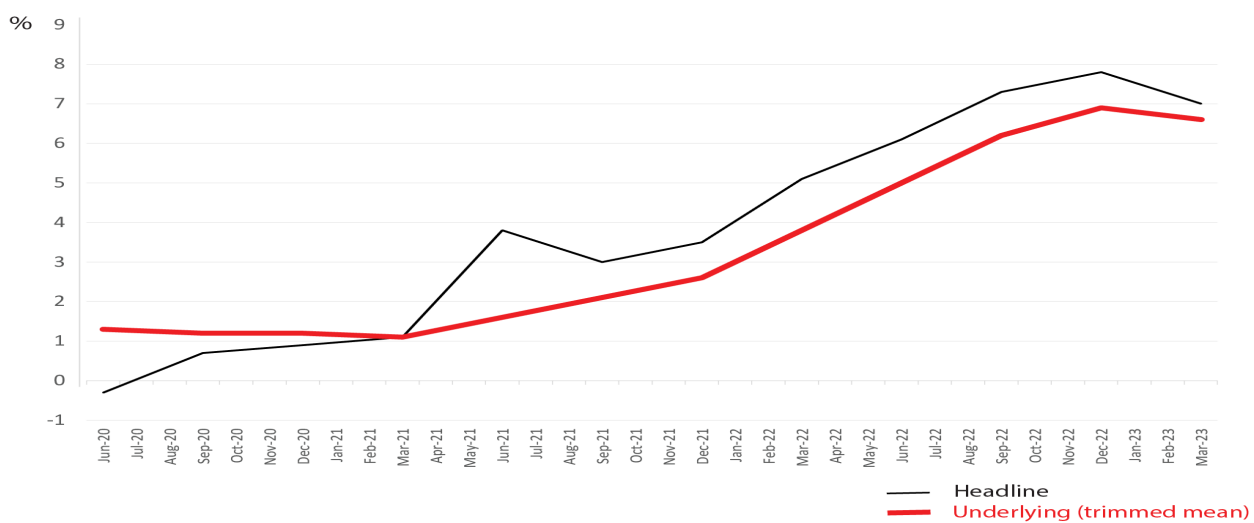
Which of the following is an example of a change to the cyclical component of the budget that helped the Australian economy to emerge from the recent economic downturn?

- A. The doubling of the unemployment benefit (JobSeeker) for a period of time
- B. The reduction in the company tax rate
- C. The \$250 cash bonuses to some welfare recipients
- D. The reduction in average taxes paid by income earners

SECTION B

Question 1 (17 marks)

Annual rate of inflation - Australia



- a. Describe and account for the movement in the headline rate of inflation relative to the underlying rate of inflation since March 2021.

4 marks

b. Explain how a higher rate of inflation might increase the size of the government’s budget surplus.

2 marks

c. Define a wage price spiral and outline the relevance of NAIRU in the development of a wage-price spiral developing.

3 marks

d. Outline how and why the Reserve Bank of Australia (RBA) responded to the movement in inflation over the past year

2 marks

e. Describe whether the RBA response referred to in the previous question represents conventional or unconventional use of monetary policy.

2 marks

f. Describe how the exchange rate influences the setting of monetary policy and is also a transmission channel of monetary policy.

4 marks

Question 2 (11 marks)

The majority of Australia’s migrants enter the country via the skilled visa stream. This, combined with Australia’s embrace of trade liberalisation, has assisted with economic recovery and enhances Australian living standards in the long term.

- a. Analyse how an increase in skilled immigration can boost Australia’s productive capacity and contribute to economic recovery. In your answer, refer to the quality and quantity of labour.

4 marks

b. Explain how trade liberalisation may influence the achievement of the goal of strong and sustainable economic growth and full employment in the short term and in the long term.

7 marks

Question 3 (22 marks)

The value of agricultural production is forecast to fall by 14% to reach \$79 billion in 2023–24. The biggest driver of this decrease is drier climatic conditions brought on by the expectation of El Niño and/or a positive Indian Ocean Dipole, which will reduce crop yields.

Source: <https://www.agriculture.gov.au/abares/research-topics>

- a. Based on the information presented above, construct a fully labelled demand and supply diagram to illustrate the predicted impact on the market for a crop like wheat.

4 marks

Market for wheat



b. Analyse how the market for wheat will move from a temporary state of disequilibrium to a new equilibrium following the changes outlined above. Illustrate your response with reference to the diagram drawn in Part a.

4 marks

c. With respect to the demand for wheat, distinguish the 'substitution effect' from the effects of a 'change in the price of a substitute'. In your answer, make reference to the diagram drawn in Part a above.

4 marks

- d. Describe how the ‘value’ of wheat production might fall despite higher wheat prices. In your answer, refer to the price elasticity of demand (PED).

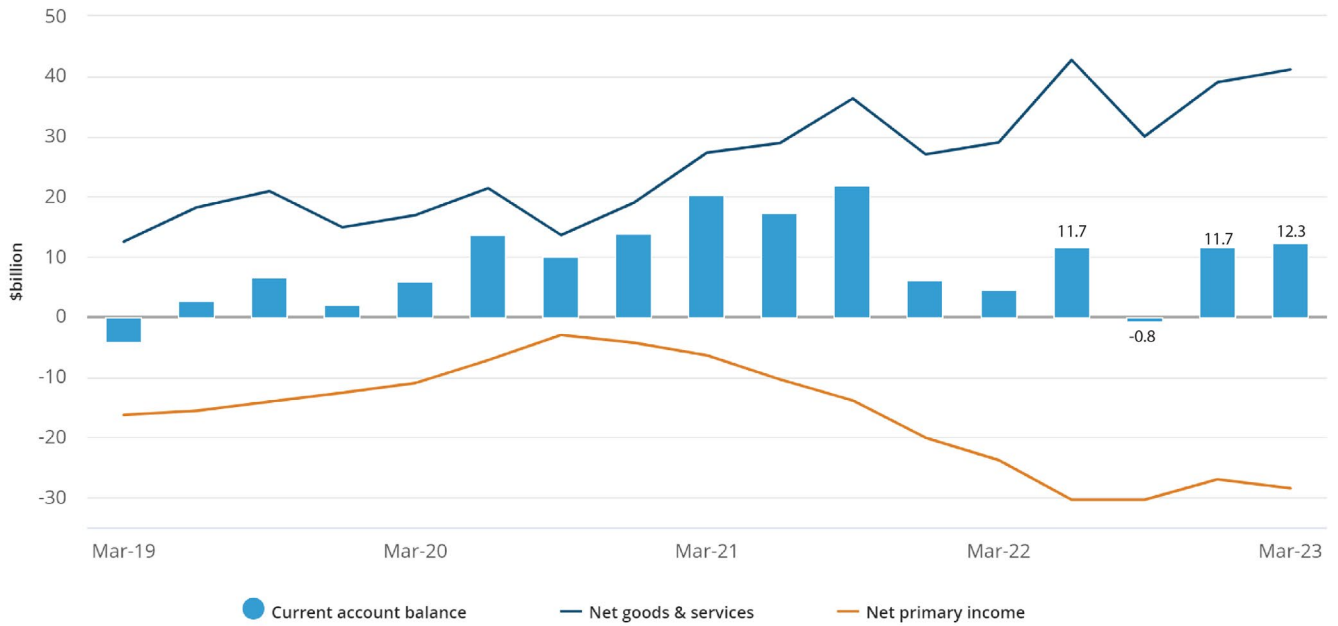
3 marks

b. Describe a strength of budgetary policy compared to monetary policy. Use an example from the past two or three years to illustrate.

3 marks

Question 5 (7 marks)

Chart 1: Current account balance: main aggregates (quarterly)



Source: Australian Bureau of Statistics, Balance of Payments and International Investment Position, Australia March 2023

- a. Based on the data presented in Chart 1, determine the value of the CAFA for the March quarter of 2023 and outline how this figure is determined.

b. Describe the implications for Australia's net foreign equities (NFE) and/or net foreign debt (NFD) given the movement in the CAFA described in part b above.

2 marks

c. Distinguish a budget deficit from a current account deficit.

3 marks

Extra space for responses**Clearly number all responses in this space**

COMMERCE PRESENTATIONS AND PUBLICATIONS



VCE ECONOMICS UNIT 3/4 2023 Practice Examination B

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