COMPAK

ECONOMICS UNITS 3 AND 4

Economics Units 3 and 4 practice exam and suggested answers

SCOTT JAMES | MENTONE GRAMMAR SCHOOL

The following practice exam for VCE Economics Units 3 and 4 consists of two sections: Section A – multiple-choice questions; and Section B – written responses. Section A is worth 15 marks and Section B is worth 65 marks. Suggested answers follow the question and answer book.

The command/task words in each question, the corresponding number of marks allocated and the number of lines provided after each question give a guide to the appropriate length of responses. Additional space is provided at the end of the question and answer book.

Please note that the questions and suggested answers have no official status. Teachers are advised to preview and evaluate all practice exam material before distributing it to students.

Name: _____   Teacher: _____

ECONOMICS UNITS 3 AND 4

Practice written examination 2024

Reading time: 15 minutes
Writing time: 2 hours

QUESTION AND ANSWER BOOK

Structure of book

Sections	Number of questions	Number of questions to be answered	Number of marks
A	15	15	15
B	6	6	65
			Total 80

- Students are permitted to bring into the examination room: 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
- Answer sheet for multiple-choice questions
- Additional space is available at the end of the book if you need extra paper to complete an answer. Clearly label all answers with the appropriate question number.

Instructions

- Write your name and your teacher's name in the spaces provided above on this page.
- All questions in both sections of this practice exam are compulsory.
- The multiple-choice questions in Section A are to be completed in pencil on the sheet provided.
- All written-response questions are to be completed in blue or black pen in the spaces provided.
- All written responses must be in English.

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

SECTION A: MULTIPLE-CHOICE QUESTIONS

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 that **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.

Question 1

If the price of e-books (substitute) decreases, what is the likely effect on the demand curve for physical books?

A. The demand curve for physical books will shift to the right.

B. The demand curve for physical books will shift to the left.

C. There will be a movement along the demand curve for physical books.

D. The demand curve for physical books will remain unchanged.

Question 2

Which of the following is an example of capital government expenditure?

A. Payment of wages to Joel working as a swimming instructor at Apollo Bay surf beach.

B. Payment of interest to Noemi who holds $5m worth of Australian Government Securities.

C. Payment for the construction of the new Parkdale Railway Station by the Victorian State Government.

D. Payment of an electricity bill by the Commonwealth Scientific and Industrial Research Organisation (CSIRO) in Aspendale, Melbourne.

Question 3

According to the Reserve Bank of Australia's charter, which is a key goal of monetary policy?

A. To contribute to the economic prosperity and welfare of the Australian people.

B. To oversee Australia's skilled migration policy.

C. To promote sustainable environmental practices.

D. To improve Australia's international competitiveness.

Question 4

Which of the following is a likely effect of skilled migration on the population and productivity of the Australian economy?

A.   It decreases the population and productivity due to competition with local Australian workers.

B.   It increases the population but has no effect on productivity.

C.   It increases both the population and productivity by bringing in high-skilled labour.

D.   It increases the population but has no effect on productivity.

Question 5

Which of the following scenarios would likely result in a leftward shift of the supply curve for wheat due to climatic conditions?

A.   A drought severely impacting the growth of wheat crops.

B.   Favourable weather leading to a bumper crop of wheat.

C.   Unchanged weather patterns over the course of a year.

D.   Improved irrigation systems mitigating the effects of dry spells.

Question 6

If the production costs for oil imported into Australia increase and all other prices remain unchanged, what is the likely effect on Australia's terms of trade?

A.   The terms of trade will improve as export prices rise.

B.   The terms of trade will deteriorate as import prices rise.

C.   The terms of trade will remain unchanged.

D.   The terms of trade will fluctuate unpredictably.

Question 7

If the value of Australia's exports exceeds the value of its imports, which of the following statements is correct?

A.   The current account will be in deficit.

B.   The net goods and services account will be in surplus.

C.   The financial account will be in deficit.

D.   The net primary and secondary incomes will be in deficit.

Question 8

Which of the following is a strength of using budgetary policy to stimulate economic growth?

A. The existence of automatic stabilisers such as income tax and JobSeeker payments.

B. The Federal Budget is usually held once a year in May.

C. Borrowing may be required to fund a budget deficit.

D. An expansionary budget stance may stimulate excessive demand inflation.

Question 9

Which of the following is a method that could be used by the Government to fund a budget deficit?

A. Increasing tariff levels on imports to create a trade surplus.

B. Reducing spending on government investment in infrastructure projects.

C. Reducing the highest marginal income tax rate from 45% to 40%.

D. Selling Australian Government Securities to local and overseas investors.

Question 10

Which of the following is a likely consequence of a very low unemployment rate?

A. It can lead to an increase in the labour force underutilisation rate.

B. It can lead to a wage-price spiral as wages rapidly fall.

C. It can lead to high demand and cost inflation as spending and costs rise in the economy.

D. It can lead to deflation as goods and services become less scarce.

Question 11

Which of the following provides an example of how the exchange rate channel can affect Australia's level of aggregate demand?

A. Influencing the price of imported goods and the price competitiveness of exports.

B. Influencing the price of financial assets, such as stock market prices.

C. Influencing interest rates on term deposits and fixed interest home loan rates.

D. Influencing the size of the deposit required for first time homebuyers.

Question 12

Quarter	Real GDP ($b)
December 2023	50
March 2024	51
June 2024	51
September 2024	56
December 2024	60
March 2025	61

Examine the table above for the hypothetical economy of Costaland which has a similar economic system to Australia. Referring to the table, what is the December 2024 rate of quarterly economic growth?

A.   1.7%

B.   7.1%

C.   20%

D.   28.4%

Question 13

Which of the following would be most likely to result in an increase in aggregate supply?

A.   A 5% increase in the minimum wage.

B.   A technological breakthrough caused by artificial intelligence leading to a significant increase in productivity.

C.   A drought that disrupts Australia's mining, logistics, agricultural and tourism industries.

D.   An increase in the tax levied on company profits.

Question 14

Which of the following scenarios is an example of market failure caused by an externality?

A.   A company provides a free online training course that anyone can access.

B.   Fish in Western Port Bay are overharvested due to lack of ownership restrictions.

C.   A consumer pays for repairs that are not required for a motor vehicle.

D.   A factory's pollution causes health issues for nearby residents.

Question 15

Environmental policies can improve the supply side of the Australian economy by:

A.   Assisting economic growth to become more sustainable.

B.   Reducing barriers to trade for Australian exporters.

C.   Encouraging competition in Australia's supermarket industry.

D.   Reducing the extremes of Australia's business cycle.

END OF SECTION A

SECTION B: WRITTEN RESPONSES

Instructions for Section B

Answer **all** questions in pen in the spaces provided.

Question 1 (12 marks)

a.   Describe the three basic economic questions.   3 marks

_____

_____

_____

_____

_____

_____

_____

_____

_____

_____

_____

b.   Explain how the conditions for a free and perfectly competitive market can lead to a more efficient allocation of resources and improved living standards.   6 marks

_____

_____

_____

_____

_____

_____

_____

_____

_____

_____

_____

_____

_____

_____

_____

_____

_____

_____

_____

_____

_____

_____

_____

_____

c.   Explain one example of government intervention in markets that unintentionally leads to a decrease in one of allocative, productive, dynamic or intertemporal efficiency.   3 marks

_____

_____

_____

_____

_____

_____

_____

_____

_____

_____

_____

Question 2 (8 marks)

a. Explain two benefits of international trade for Australian living standards.   4 marks

_____

_____

_____

_____

_____

_____

_____

_____

_____

_____

_____

_____

_____

_____

_____

FIGURE 1: AUSTRALIAN DOLLAR V US DOLLAR IN CENTS

Month	A$/ USD cents
Jan 2023	70.4
February	67.3
March	67.1
April	66.1
May	65.0
June	66.3
July	66.8
August	64.9
September	64.6
October	63.5
November	66.5
December	68.4
January 2024	65.7

Source: *Key Economic and Social Indicators – Parliament of Australia (aph.gov.au)* accessed 10/4/24

b.   Referring to the table above, describe the trend in Australia's exchange rate and explain how one factor may have contributed to this trend.   4 marks

Question 3 (9 marks)

FIGURE 2: AUSTRALIAN BUDGET AGGREGATES

Table 1.2: Budget aggregates

	Actual	Estimates						Projections
	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	Total(a)	2034-35
	$b	$b	$b	$b	$b	$b	$b	
Underlying cash balance	22.1	9.3	-28.3	-42.8	-26.7	-24.3	-112.8	
Per cent of GDP	0.9	0.3	-1.0	-1.5	-0.9	-0.8		-0.1
Gross debt(b)	889.8	904.0	934.0	1,007.0	1,064.0	1,112.0		
Per cent of GDP	34.7	33.7	33.9	35.1	35.2	34.9		30.2
Net debt(c)	491.0	499.9	552.5	615.5	660.0	697.5		
Per cent of GDP	19.2	18.6	20.0	21.5	21.8	21.9		18.7

a) Total is equal to the sum of amounts from 2023–24 to 2027–28.
b) Gross debt measures the face value of Government Securities (AGS) on issue.
c) Net debt is the sum of interest-bearing liabilities (which includes AGS on issue measured at market value) less the sum of selected financial assets (cash and deposits, advances paid and investments, loans and placements).

Source: 'Statement 1' Budget Overview, Budget 24-25, Commonwealth of Australia, Page 7, 14 May 2024

a. Referring to the table above, outline what is meant by the underlying cash balance.

3 marks

b. Describe a discretionary stabiliser from the 2024/25 budget and analyse its role in influencing aggregate demand and the achievement of the domestic macroeconomic goal of low and stable inflation.   6 marks

_____

_____

_____

_____

_____

_____

_____

_____

_____

_____

_____

_____

_____

_____

_____

_____

_____
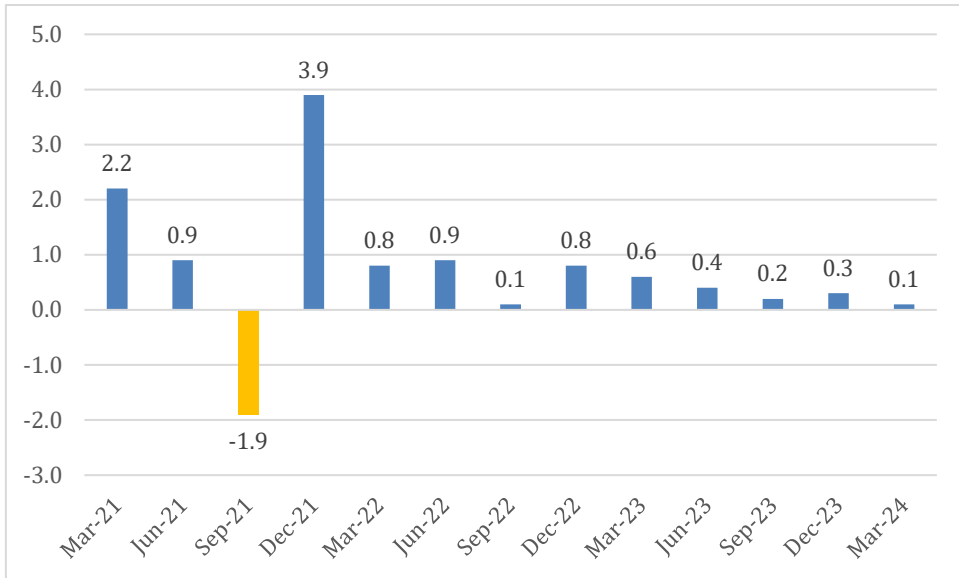
_____

_____

_____

_____

_____

Question 4 (11 marks)

FIGURE 3: QUARTERLY AUSTRALIAN GDP, PERCENTAGE GROWTH RATES, SEASONALLY ADJUSTED

Source: Australian National Accounts: National Income, Expenditure and Product, March 2024, Australian Bureau of Statistics, https://www.abs.gov.au/statistics/economy/national-accounts/australian-national-accounts-national-income-expenditure-and-product/latest-release, released 5 June 2024

a. Referring to the above graph, describe the trend in quarterly GDP for 2023 and calculate the annual rate of economic growth for the year ended 31 December 2023 based on the data provided. 2 marks

_____

_____

_____

_____

_____

_____

_____

b. Explain two aggregate demand factors that may have influenced Australia's rate of economic growth in the past 12 months. 4 marks

_____

_____

_____

c. Evaluate the extent to which the Australian economy has achieved the domestic macroeconomic goal of strong and sustainable economic growth in 2023. **5 marks**

Question 5 (13 marks)

> **Productivity bulletin: green shoots mark end of productivity bubble**
>
> Labour productivity increased for the second quarter in a row in the December 2023 quarter, suggesting a return to 'productivity normal' after the effects of the COVID-19 pandemic. The March Productivity Bulletin finds labour productivity increased by 0.5% in the December quarter, as hours worked fell by 0.3% while output increased by 0.2%. "For two quarters in a row Australians produced more while working fewer hours. And while monthly labour force data is volatile, we can now say with a bit more confidence that the freefall in labour productivity that began in June 2022 has likely bottomed out," said Deputy Chair Alex Robson.
>
> Extract from: Quarterly productivity bulletin – March 2024 - PC productivity insights - Productivity Commission

a. With reference to the extract above, explain how an improvement in the rate of Australia's productivity growth can promote non-inflationary economic growth. 3 marks

b. Analyse how <u>one</u> of the following aggregate supply policies is designed to positively influence Australia's aggregate supply, international competitiveness and material living standards.

- training and education
- research and development
- subsidies
- infrastructure
- tax reform

5 marks

_____

_____

_____

_____

_____

_____

_____

_____

_____

_____

_____

_____

_____

_____

_____

_____

_____

_____

_____

c. Evaluate the short-term and long-term impacts of trade liberalisation on Australia's domestic macroeconomic goal of full employment. 5 marks.

_____

_____

_____

_____

_____

_____

_____

_____

_____

_____

_____

_____

_____

_____

Question 6 (12 marks)

FIGURE 4: AUSTRALIAN CASH RATE TARGET

Source: RBA.

a. With reference to the chart above and your knowledge of monetary policy, describe the stance of monetary policy in 2024. 3 marks

_____

_____

_____

_____

_____

_____

_____

_____

_____

_____

_____

b. Analyse one strength and one weakness of using monetary policy in positively influencing Australian material living standards. 5 marks

c. Examine two consequences for living standards if the goal of low and stable inflation is not achieved.   4 marks

_____

_____

_____

_____

_____

_____

_____

_____

_____

_____

_____

_____

_____

_____

END OF QUESTION AND ANSWER BOOK

Extra space for responses

Clearly number all responses in this space.

Extra space for responses

Clearly number all responses in this space.

Economics Units 3 and 4 practice exam 2024

ANSWER SHEET FOR SECTION A

Student name: _____

Use a **pencil** for **ALL** entries. For each question, shade the box that indicates your answer. All answers must be completed like the example below.

1   ▢   ▢ B   ▢ C   ▢ D

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

NO MARK will be given if more than **ONE** answer is completed for any question.

If you make a mistake, **ERASE** the incorrect answer – **DO NOT** cross it out.

ONE ANSWER PER LINE

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