



## **ECONOMICS STAGE 2 SAMPLE EXAMINATION**

Section 7 of the *New WACE Manual: General Information 2006–2009* outlines the policy on WACE examinations.

Further information about the WACE Examinations policy can be accessed from the Curriculum Council website at [http://newwace.curriculum.wa.edu.au/pages/about\\_wace\\_manual.asp](http://newwace.curriculum.wa.edu.au/pages/about_wace_manual.asp).

The purpose for providing a sample examination is to provide teachers with an example of how the course will be examined. Further finetuning will be made to this sample in 2007 by the examination panel following consultation with teachers, measurement specialists and advice from the Assessment, Review and Moderation (ARM) panel.

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**Western Australian Certificate of Education, Sample External Examination  
Question/Answer Booklet**

**ECONOMICS  
WRITTEN PAPER  
STAGE 2**

Please place your student identification label in this box

Student Number: In figures

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In words

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***Time allowed for this paper***

Reading time before commencing work:

Ten minutes

Working time for paper:

Three hours

***Material required/recommended for this paper***

**To be provided by the supervisor**

This Question/Answer Booklet  
Multiple Choice Answer Sheet

**To be provided by the candidate**

Standard Items: Pens, pencils, eraser or correction fluid, highlighter and ruler.

Special Items: Calculators satisfying the conditions set by the Curriculum Council for this subject.

***Important note to candidates***

No other items may be taken into the examination room. It is **your** responsibility to ensure that you do not have any unauthorised notes or other items of a non-personal nature in the examination room. If you have any unauthorised material with you, hand it to the supervisor **before** reading any further.

***Structure of this paper***

Section	Suggested working time	Number of questions available	Number of questions to be attempted	Marks available
Section One: Multiple-choice	45 minutes	30	All	30
Section Two: Data interpretation and short answer	90 minutes	4	All	50
Section Three: Sectionalised long answer	45 minutes	2	1	20
[Total marks]				100

***Instructions to candidates***

1. The rules for the conduct of Curriculum Council WACE examinations are detailed in the *Student Information Handbook*. Sitting this examination implies that you agree to abide by these rules.
2. Answer all questions in the Question/Answer Booklet in blue or black ballpoint or ink pen. Wherever appropriate, fully labelled diagrams and examples should be used to illustrate and support your answers.
3. You must be careful to confine your responses to the specific questions asked and to follow any instructions that are specific to a particular question.

**SECTION ONE—MULTIPLE-CHOICE**

Attempt **ALL** questions from this section.

For questions 1–30 choose the alternative which most correctly answers the question or completes the statement. Record your answers on the separate multiple-choice answer sheet using a 2B, B or HB pencil. Read the instructions on this sheet with care. Each question is worth one mark.

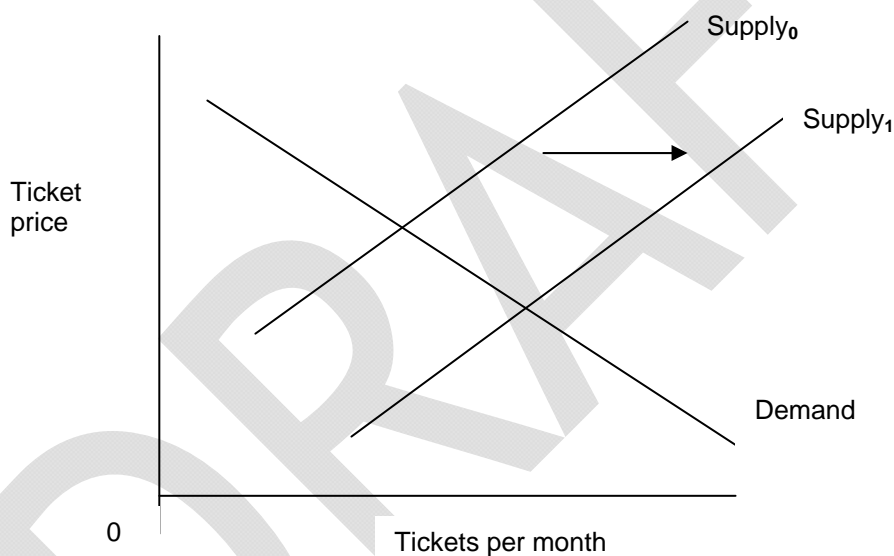
Allow approximately 45 minutes for this section. [30 marks]

1. The law of demand argues that as price rises

[1 mark]

- (A) the quantity demanded will fall
- (B) the quantity demanded will rise
- (C) the demand curve will shift to the right
- (D) quantity demanded will fall due to a decrease in demand.

2. Consider the following demand and supply diagram, for airline tickets from Perth to London, showing a shift in the supply curve from Supply<sub>0</sub> to Supply<sub>1</sub>.



This shift in the supply curve could have been caused by

[1 mark]

- (A) an increase in the demand for airline tickets to London
- (B) a decrease in the price of airline tickets to London
- (C) a decrease in the cost of aviation fuel
- (D) an increase in the price of airline tickets from Perth to New York.

3. An increase in the tax on petrol is imposed by the government in order to raise revenue. This decision suggests that the demand for petrol is likely to be

[1 mark]

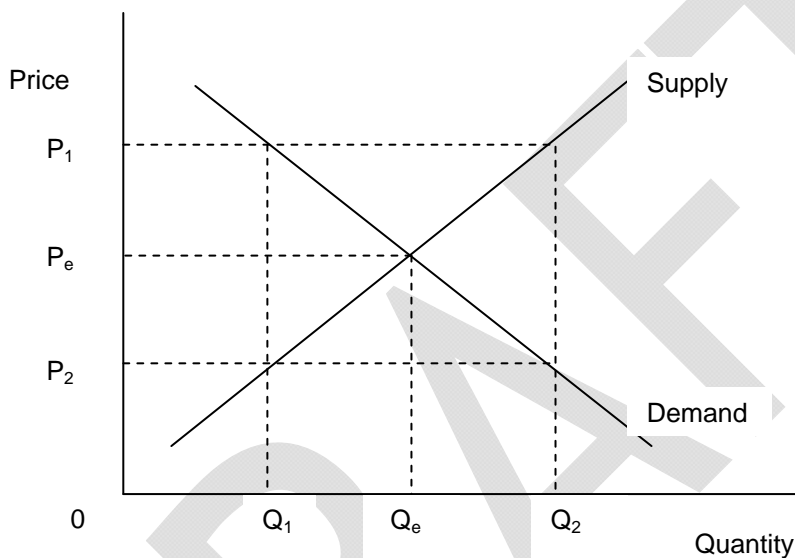
- (A) income elastic
- (B) income inelastic
- (C) price elastic
- (D) price inelastic.

4. An effective price ceiling will cause

[1 mark]

- (A) an oversupply or surplus in the production of output
- (B) an inefficient allocation of resources and a shortage in supply
- (C) an expansion in supply as producers attempt to maximise profit
- (D) a contraction in supply as producers respond to lower prices.

5. Consider the following diagram showing the Australian wine market.



The government decides to place a subsidy on Australian wine production so that producers are guaranteed a price of  $0P_1$ . The subsidy per bottle is equal to

[1 mark]

- (A)  $0P_2 + 0Pe$
- (B)  $0P_1 - 0Pe$
- (C)  $0P_1 - 0P_2$
- (D)  $0Pe - 0P_2$ .

6. If car manufacturers are forced by the government to install further anti-pollution equipment on cars sold in the local market, which of the following is most likely to result? [1 mark]
- (A) an increase in private costs and a reduction in negative externalities
  - (B) an increase in private costs and an increase in negative externalities
  - (C) an increase in social costs and a reduction in negative externalities
  - (D) an increase in social costs and an increase in negative externalities.
7. A public good is one which [1 mark]
- (A) the private sector fails to provide because costs are prohibitive
  - (B) will be provided by government because it is a good or service necessary for all households
  - (C) must be available to each and every consumer due to the difficulty of exclusion and free riders
  - (D) some consumers receive tax rebates since they rarely use public facilities.
8. Which of the following market structures have barriers to entry that restrict firms from entering the market? [1 mark]
- (i) perfect competition
  - (ii) monopolistic competition
  - (iii) monopoly
  - (iv) oligopoly
- (A) (iii) only
  - (B) both (i) and (ii)
  - (C) both (iii) and (iv)
  - (D) all of the above are possible high barriers to entry
9. Which of the following situations contains an example of producer surplus? [1 mark]
- (A) a consumer would be willing to pay \$100 for a widget but is able to get it for only \$20
  - (B) at a price of \$100, producers would be willing to produce 5000 widgets but buyers would only be willing to purchase 2000
  - (C) a producer would be willing to sell widgets for \$100 but the market price is \$150
  - (D) a maker of widgets thought he needed four people to produce 500 widgets, but when he hired four people, they produced 800 widgets.
10. Which of the following provides a definition of a consumer surplus? [1 mark]
- (A) the total value placed on products by the market
  - (B) the difference between the consumer's willingness to pay and the price actually paid for the product
  - (C) the difference between the consumer's willingness to pay and the firm's cost of the product
  - (D) the total value placed on products by consumers.
11. The opportunity cost of spending \$160 to go to a concert is [1 mark]
- (A) the best alternative use of the \$160
  - (B) the best alternative use of the time attending the concert
  - (C) the best alternative use of both the \$160 and the time attending the concert
  - (D) the alternative use of the resources involved in producing the concert.

12. Which of the following questions raised by the economic problem is not influenced by the consumer in a market economy? [1 mark]
- (A) What goods and services to produce?
  - (B) How many goods and services to produce?
  - (C) How to produce the goods and services?
  - (D) For whom to produce the goods and services?
13. The fundamental economic problem is [1 mark]
- (A) how to maximise the quantity of goods and services consumed every year
  - (B) how to increase the stock of capital equipment that labour utilises to produce goods and provide services
  - (C) how to sustain the use of natural resources and protect the environment
  - (D) how to allocate limited resources to produce the goods and services most desired by members of society.
14. Which of the following doesn't the exclusion principle apply to? [1 mark]
- (A) entry to the local swimming pool
  - (B) entry to the art gallery
  - (C) entry to a theme park
  - (D) a mosquito spraying program in the local region.
15. Which of the following statements by producers describes a movement along the supply curve? [1 mark]
- (A) wage increases have forced us to raise our prices
  - (B) new equipment will make us more competitive
  - (C) the prices of raw materials have increased due to higher transport costs
  - (D) there has been a large increase in demand for our product pushing its price up
16. The government has a role to play in a market economy because this system sometimes [1 mark]
- (A) fails to offer consumers sufficient incentives to produce
  - (B) creates inefficiency in allocating resources
  - (C) discriminates against the economically weak and fails to provide for basic social needs
  - (D) is generally inefficient in the allocation of scarce resources.
17. Which of the following is not a justification for government intervention in a market system? [1 mark]
- (A) reduction of the extent of negative externalities in society
  - (B) provide goods and services not adequately supplied by private enterprise
  - (C) regulation of demand to achieve full employment and stable prices
  - (D) reduction of consumer prices to more acceptable levels.
18. If nominal GDP increased by 5% in a particular year while real GDP increased by 3%, this indicates [1 mark]
- (A) price level decreased
  - (B) unemployment increased
  - (C) the price level increased
  - (D) output decreased.



19. The unemployment rate will always decrease whenever [1 mark]
- (A) the number of people looking for work increases
  - (B) there is a fall in the number of unemployed workers relative to the size of the labour force
  - (C) the number of unemployed workers increases
  - (D) there is a reduction in the size of the population.
20. In times of high inflation [1 mark]
- (A) people who save money are advantaged
  - (B) people tend to postpone purchases as long as possible
  - (C) borrowers with fixed interest rate loans are advantaged
  - (D) lenders usually gain.
21. Economic growth is regarded as an important objective because it [1 mark]
- (A) reduces the stock of the world's resources
  - (B) always creates additional employment
  - (C) allows countries to develop anti-inflation policies
  - (D) ultimately leads to higher living standards for the community.
22. Which of the following would most likely decrease as a result of an upturn in the business (trade) cycle? [1 mark]
- (A) the rate of inflation
  - (B) the level of economic activity
  - (C) the level of imports
  - (D) the rate of unemployment
23. Which one of the following is not included in the calculation of Australia's Gross Domestic Product (GDP)? [1 mark]
- (A) a consumer purchasing a new television set
  - (B) a firm purchasing a new piece of equipment
  - (C) a transfer payment from the government to an individual
  - (D) the amount paid by the government to build a new hospital
24. Which of the following is the most useful example of an economic indicator? [1 mark]
- (A) the current price of Qantas shares
  - (B) the number of building approvals
  - (C) the retirement age
  - (D) the school leaving age.

25. This question should be answered with reference to the table below showing data from a hypothetical economy.

Income (Taxable)	\$20 000	\$40 000	\$60 000	\$80 000
Taxation Payment	\$4000	\$9000	\$15 000	\$20 000

This taxation system is

- (A) progressive between \$20 000 and \$40 000 of income, but proportional above \$60 000 [1 mark]
- (B) proportional throughout all levels of income
- (C) regressive throughout all levels of income
- (D) proportional between \$20 000 and \$40 000 of income, but progressive above \$60 000.
26. An increase in the rate of tax paid by high income earners together with an increase in the job search allowance will cause income inequality in the economy to [1 mark]
- (A) increase
- (B) decrease
- (C) not change
- (D) become equal.
27. This question should be answered with reference to the table below showing the unemployment rate for a hypothetical economy over a three year period.

Year	Unemployment rate
1	6.9
2	6.2
3	5.5

Which one of the following would not be a possible factor contributing to the trend in the unemployment rate in the years shown?

- (A) a strong global economy [1 mark]
- (B) rising consumer confidence
- (C) rising participation rates
- (D) rising private investment expenditure
28. This question should be answered with reference to the table showing selected data for a hypothetical economy:

Year	Money Gross Domestic Product (\$m)	Literacy level (%)	Mortality rate per 1000 population	Consumer price index (CPI)
1995	\$4000	67	80	145
2005	\$7550	79	55	170

Which statement correctly describes what this economy has experienced over the time period shown?

- (A) an increase in real GDP but a decline in living standards [1 mark]
- (B) an increase in real GDP and improved living standards
- (C) a decrease in real GDP and a decline in living standards
- (D) a decrease in real GDP but improved living standards.

**SEE NEXT PAGE**

29. Which of the following economic variables would decrease as a result of an improvement in the international business cycle?

[1 mark]

- (A) cyclical unemployment
- (B) foreign investment
- (C) global inflation
- (D) export receipts.

30. Which of the following factors is most likely to cause of demand inflation?

[1 mark]

- (A) an increase in the cost of labour
- (B) an increase in domestic interest rates
- (C) an increase in the level of consumer spending
- (D) an increase in import prices.

**END OF SECTION ONE**

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**SEE NEXT PAGE**

**SECTION TWO—DATA INTERPRETATION AND SHORT ANSWER**

Attempt **ALL** questions from this section.

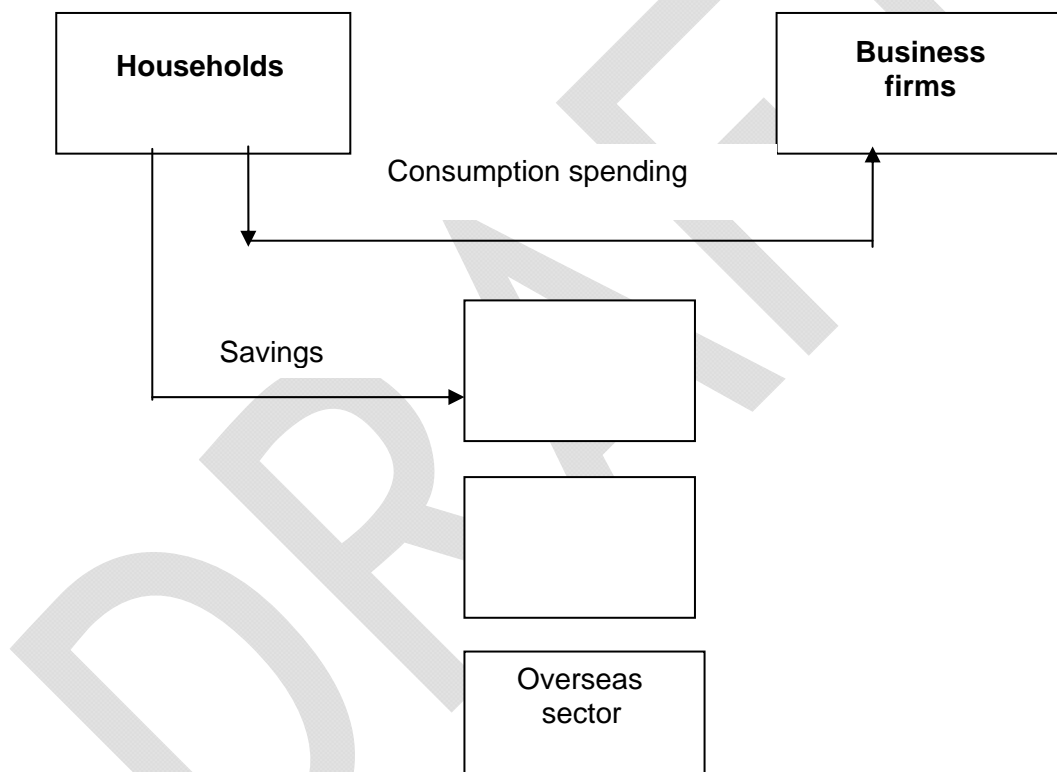
Write your answers in the spaces provided under each part of the question. The space provided indicates the required length of the answer. Each question is worth 15 marks.

Allow approximately 90 minutes for this section. *[50 marks]*

**Question 1**

(a) The rectangles below represent the five sectors of an economy. Complete the Circular Flow of Income Model by labelling the remaining sectors and adding lines to represent the money flows between them.

*[2 marks]*



(b) Distinguish between leakages and injections in this model and explain the concept of equilibrium in the Circular Flow of Income and Expenditure.

[3 marks]

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(c) Assume that the Circular Flow of Income model is initially in equilibrium. Outline the effects of an increase in injections on the levels of Spending, Output and Income.

[5 marks]

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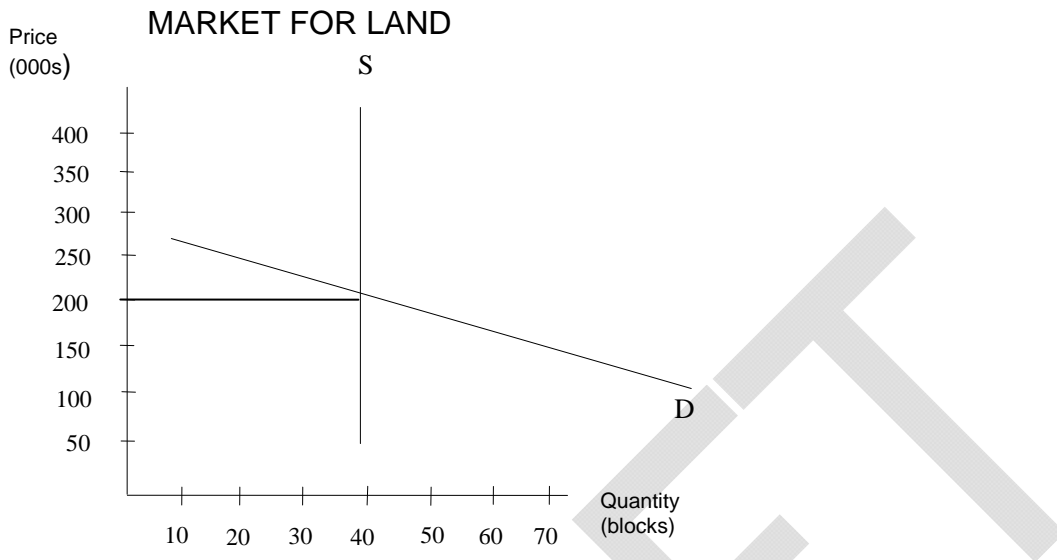
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**Question 2**

The graph below indicates the demand and supply for blocks of land being sold in a development by the state government. Examine the graph and then answer the questions that follow.



(Assume: 40 blocks on offer in this land sale)

**(a) (i)** What is the equilibrium price of blocks of land at this land sale?

[1 mark]

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**(ii)** Calculate the revenue that is raised by the state government when blocks are sold at the equilibrium price.

[1 mark]

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**(b)** Explain what would happen at this land sale if the government charged a price of \$150 000 per block. Demonstrate the effects of this change on the graph above.

[3 marks]

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- (c) Assume that the price of blocks of land increases to \$250 000 causing the quantity demanded to fall to 20 blocks.

Briefly explain the price elasticity of demand for land in this market by showing the effect that this change in price has on quantity demanded and total revenue raised.

[4 marks]

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- (d) The government currently pays a grant of \$7000 to people buying their first home—The First Home Owner Grant. Assume that the government decides to provide extra assistance to first home buyers by adding \$2000 to the grant. At the same time there is increased migration to Western Australia.

Explain what would happen to demand, supply and the equilibrium price of blocks of land as a result of the increase in the grant and the increased migration. Use a graph to illustrate your answer.

[6 marks]



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**Question 3**

The following table shows data on Australia's labour force.

**Australian Bureau of Statistics  
1350.0 Mar 2007 Australian Economic Indicators**

Period	Employed			Unemployed	Labour force	Civilian population (aged 15 yrs and over)	Unemployment rate	Participation rate
	Full-time	Part-time	TOTAL					
2000–01	6629.9	2426.7	9056.5	619.5	9676.0	15266.5	6.4	63.4
2001–02	6594.7	2573.4	9168.1	663.3	9831.5	15503.0	6.7	63.4
2002–03	6702.1	2692.5	9394.5	624.4	10018.9	15738.7	6.2	63.7
2003–04	6840.3	2719.1	9559.5	586.0	10145.5	15986.9	5.8	63.5
2004–05	7041.8	2802.9	9844.7	545.6	10390.3	16227.3	<b>(i)</b>	64.0
2005–06	7180.4	2885.4	10065.8	539.5	10605.3	16441.4	5.1	<b>(ii)</b>

**(a)** (i) Calculate the unemployment rate for 2004–05.

[1 mark]

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(ii) Calculate the participation rate for 2005–06.

[1 mark]

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**(b)** Refer to the trends in the unemployment and participation rates shown in the table during the period 2003–04 to 2005–06.

Explain how economic conditions in Australia over this period have led to the trends shown in these two rates.

[3 marks]

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- (c) Two economic objectives of the Australian government are:
  - full employment
  - sustainable economic growth.

Define and explain the relationship between these two economic objectives.

[5 marks]

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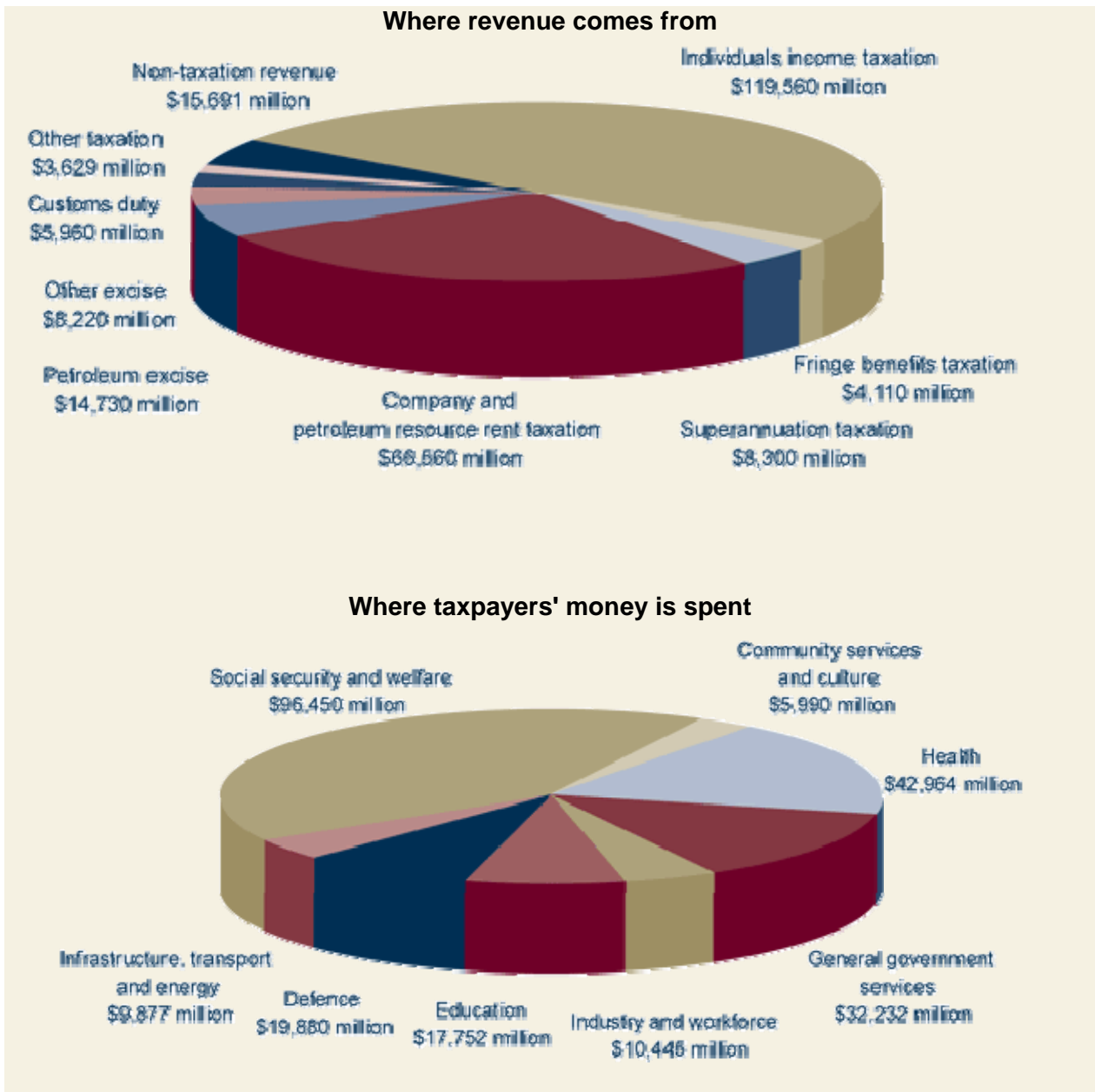
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**Question 4**

The charts below summarise Australian government revenues and expenses for 2007–08. Total revenue for 2007–08 is expected to be \$247 billion. Total expenses for 2007–08 are expected to be \$236 billion.



[From: Australian Government, 2007]

(a)

(i) Calculate the percentage of total revenue expected to be collected from individual's income taxation in 2007–08. [1 mark]

(ii) Identify one transfer payment that would be classified in the social security and welfare category in the pie chart.

[1 mark]

**(b)** Distinguish between progressive, regressive and proportional taxes giving an example of each from the pie chart.

*[3 marks]*

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**(c)** Explain the impact of each of the following on the distribution of income:

- a decrease in the marginal tax rate from 45 cents in the dollar to 41 cents in the dollar for incomes over \$150 000
- a welfare reform increasing the Newstart Allowance for the unemployed.

*[4 marks]*

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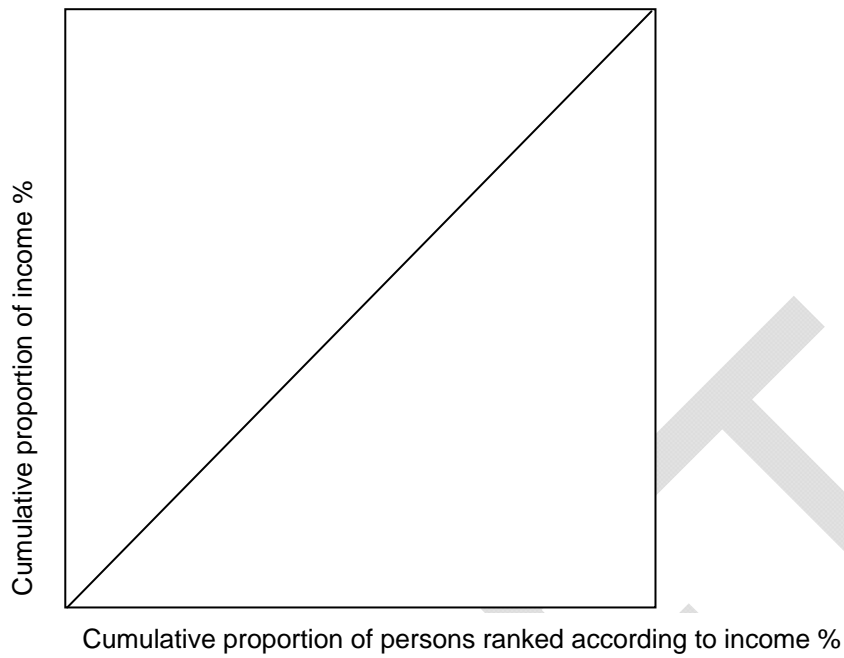
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(d) Explain, and demonstrate by completing the diagram, the role of progressive taxation and welfare payments in influencing the distribution of income in Australia.

[6 marks]



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## SECTION THREE—SECTIONALISED LONG ANSWER

Attempt **ONE (1)** question from this section.

Write your answers on the pages which follow the end of this section.

Allow approximately 45 minutes for this section. *[20 marks]*

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### Question 5

(a) Explain the concept of market failure.

*[2 marks]*

(b) Draw a demand and supply graph to illustrate the negative externality of air pollution caused from the use of motor vehicles.

*[5 marks]*

(c) Using air pollution from motor vehicles as an example, explain how the graph drawn in part (b) demonstrates the effect of a negative externality.

*[5 marks]*

(d) The following are some of the actions which governments can take to correct market failure:

- taxes
- subsidies
- assigning property rights
- regulating the use of common resources
- providing public goods and services.

Select any **TWO (2)** of the above to explain how governments intervene in markets to correct for market failure. Refer to examples from at least one market in your answer.

*[8 marks]*

### Question 6

(a) Explain the concept of the business cycle. Use a diagram to support your answer.

*[4 marks]*

(b) Outline the economic characteristics of the boom and contraction phases of the business cycle.

*[8 marks]*

(c) Explain using examples the difference between leading, lagging and coincident economic indicators.

*[8 marks]*

**END OF PAPER**

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## ACKNOWLEDGEMENTS

### SECTION TWO

- Question 3:** Australian Bureau of Statistics. (2007). *1350.0—Australian Economic Indicators, Mar 2007* (1350.0 Chapter 6—Labour force and demography). Retrieved July, 2007, from <http://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/1350.0Mar%202007?OpenDocument>.
- Question 4:** Australian Government. (2007). *Budget overview* (Appendix D: Australian Government taxation and spending). Retrieved July 2007, from [http://www.budget.gov.au/2007-08/overview/html/overview\\_37.htm](http://www.budget.gov.au/2007-08/overview/html/overview_37.htm).

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