



## Western Australian Certificate of Education Examination, 2010

### Question/Answer Booklet

# ECONOMICS

## Stage 2

Please place your student identification label in this box

Student Number: In figures

--	--	--	--	--	--	--	--

In words

---

---

### Time allowed for this paper

Reading time before commencing work: ten minutes

Working time for paper: three hours

### Materials 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, correction fluid/tape, ruler, highlighters

Special items: non-programmable calculators satisfying the conditions set by the Curriculum Council for this course

### 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	Number of questions available	Number of questions to be answered	Suggested working time (minutes)	Marks available	Percentage of exam
Section One: Multiple-choice	30	30	45	30	30
Section Two: Data interpretation/ Short response	4	4	90	50	50
Section Three: Extended response	2	1	45	20	20
<b>Total</b>					100

## Instructions to candidates

- The rules for the conduct of Western Australian external examinations are detailed in the *Year 12 Information Handbook 2010*. Sitting this examination implies that you agree to abide by these rules.
- Answer the questions according to the following instructions.

**Section One:** Answer all questions on the separate Multiple-choice Answer Sheet provided. For each question shade the box to indicate your answer. Use only a blue or black pen to shade the boxes. If you make a mistake, place a cross through that square, do not erase or use correction fluid, and shade your new answer. Marks will not be deducted for incorrect answers. No marks will be given if more than one answer is completed for any question.

**Section Two:** Write answers in this Question/Answer Booklet. Spare pages are included at the end of this booklet. They can be used as additional space if required to continue an answer. If you need to use the space to continue an answer, indicate in the original answer space where the answer is continued, i.e. give the page number. Fill in the number of the question(s) that you are continuing to answer at the top of the page.

**Section Three:** Write answers in this Question/Answer Booklet. Pages are included at the end of this booklet for planning and writing your answer.

- **Planning:** If you use the pages for planning, indicate this clearly at the top of the page.
- **Answering the question:** In the pages provided indicate clearly the number of the question you are answering.

- 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

30% (30 Marks)

This section has **30** questions. Answer **all** questions on the separate Multiple-choice Answer Sheet provided. For each question shade the box to indicate your answer. Use only a blue or black pen to shade the boxes. If you make a mistake, place a cross through that square, do not erase or use correction fluid, and shade your new answer. Marks will not be deducted for incorrect answers. No marks will be given if more than one answer is completed for any question.

Suggested working time: 45 minutes.

---

1. The economic problem is a problem of scarcity because
  - (a) consumers cannot purchase all their wants.
  - (b) there are insufficient resources relative to the consumers' wants.
  - (c) production surpluses will occur in all markets.
  - (d) goods and services are purchased at high prices.
  
2. The opportunity cost of going to the movies with a friend would include
  - (a) the cost of the ticket but not the enjoyment of a TV show missed.
  - (b) the cost of the ticket and the cost of the friend's ticket.
  - (c) the cost of the ticket and the loss of enjoyment of a TV show missed.
  - (d) the cost of the ticket.
  
3. Which one of the following is a factor that may increase the level of demand for a good?
  - (a) a fall in the price of resources used to produce the good
  - (b) a fall in the price of the good
  - (c) a fall in the price of complementary goods
  - (d) a fall in the price of substitute goods
  
4. If both the demand and the supply of a good decreases, it could be predicted that
  - (a) equilibrium price and equilibrium quantity will rise.
  - (b) equilibrium price and equilibrium quantity will fall.
  - (c) equilibrium price will fall but the change in equilibrium quantity cannot be determined without further information.
  - (d) equilibrium quantity will fall but the change in equilibrium price cannot be determined without further information.
  
5. A good for which the supply is perfectly inelastic has a supply curve which is
  - (a) a vertical straight line.
  - (b) a horizontal straight line.
  - (c) backward sloping.
  - (d) forward sloping.

6. Which one of the following would be most likely to have negative income elasticity?
- (a) jewellery
  - (b) restaurant meals
  - (c) sausages
  - (d) champagne

7. Bubbles and Twammy are two brands of cola soft drink. They can be classified as \_\_\_\_\_, and therefore their cross-elasticity of demand will be \_\_\_\_\_.

The missing words are, respectively:

- (a) substitutes; zero
  - (b) complements; one
  - (c) substitutes; negative
  - (d) substitutes; positive
8. If a person pays \$100 to attend a concert, but they were willing to pay \$150, then the person's consumer surplus is
- (a) \$100.
  - (b) \$250.
  - (c) \$150.
  - (d) \$50.

9. A reduction in production costs will

- (a) increase the consumer surplus.
- (b) decrease the consumer surplus.
- (c) reduce the total welfare.
- (d) not change total welfare.

10. Total surplus is

- (a) consumer surplus minus producer surplus.
- (b) total benefits minus total costs.
- (c) maximised when consumer surplus is greater than producer surplus.
- (d) maximised when consumer surplus is equal to producer surplus.

11. Resources are allocated efficiently in a market when

- (a) total surplus is minimised.
- (b) deadweight loss is maximised.
- (c) deadweight loss is minimised.
- (d) total surplus is greater than consumer surplus.

12. Goods associated with negative externalities are always

- (a) underpriced and underproduced.
- (b) overpriced and underproduced.
- (c) underpriced and overproduced.
- (d) overpriced and overproduced.

13. Monopoly markets tend to result in
- (a) increased producer surplus and reduced total surplus.
  - (b) increased consumer surplus and increased total surplus.
  - (c) decreased producer surplus and decreased total surplus.
  - (d) increased producer surplus and increased total surplus.
14. Consider the following list of goods and services: lighthouses; street lights; national parks; and national defence. These goods and services are examples of
- (a) common resources.
  - (b) merit goods.
  - (c) public goods.
  - (d) private goods.
15. Which one of the following government policies would be an appropriate response to the overuse of common resources?
- (a) the use of sales taxes
  - (b) government subsidies
  - (c) the assigning of property rights
  - (d) higher company taxes
16. Which one of the following is a macroeconomic issue?
- (a) the deregulation of the banking industry
  - (b) inflation of prescription drug prices
  - (c) the rate of change of real GDP
  - (d) the effect of excise taxes on consumers' buying patterns
17. Which one of the following is **not** an injection into the circular flow of income?
- (a) export receipts
  - (b) savings
  - (c) government spending
  - (d) investments
18. If leakages are greater than injections
- (a) the level of economic activity will decline.
  - (b) the level of economic activity will increase.
  - (c) the rate of inflation will increase.
  - (d) the unemployment rate will fall.

19. The most important factor affecting consumption expenditure is the
- (a) level of income.
  - (b) level of consumer confidence.
  - (c) level of interest rates.
  - (d) level of taxation.
20. Investment includes
- (a) purchasing stamps in the hope that they will increase in value.
  - (b) buying an existing house so that it can be rented.
  - (c) putting money into superannuation funds to obtain future income.
  - (d) acquiring new machinery for a firm.
21. During the recovery stage of the business cycle it is expected that
- (a) unemployment rates will rise, economic growth rates will fall and prices will remain stable.
  - (b) unemployment rates will fall, economic growth rates will rise and inflation rates will increase.
  - (c) unemployment rates will remain constant, the current account deficit will decline and inflation rates will decrease.
  - (d) economic growth rates will fall, employment rates will rise and the current account deficit will become positive.
22. Share prices, building loan approvals and consumer confidence indexes are examples of
- (a) leading indicators.
  - (b) coincident indicators.
  - (c) lagging indicators.
  - (d) counter-cyclical indicators.
23. The rate of economic growth is **best** defined as the increase in
- (a) the value of output produced in an economy.
  - (b) the production of goods and services measured in real terms.
  - (c) total money supply in an economy.
  - (d) the value of exports and imports.
24. Inflation benefits
- (a) lenders at the expense of borrowers.
  - (b) people on fixed incomes at the expense of those on flexible incomes.
  - (c) borrowers at the expenses of lenders.
  - (d) investors at the expense of speculators.

25. The Consumer Price Index (CPI) measures
- (a) changes in the price of selected goods that are produced in the economy.
  - (b) changes in the price of consumer durables.
  - (c) changes in the price of all items consumed.
  - (d) changes in the price of selected items representative of consumption expenditure.
26. When an Australian buys shares in an American company, this would be recorded in our balance of payments as
- (a) a credit on Australia's current account.
  - (b) a debit on Australia's current account.
  - (c) a credit on Australia's capital and financial account.
  - (d) a debit on Australia's capital and financial account.
27. A rise in Australia's Current Account deficit can be caused by
- (a) an increase in the inflation rate.
  - (b) an increase in Australian investment overseas.
  - (c) a decrease in foreign investment.
  - (d) a reduction in aggregate demand in the economy.
28. Total Australian government expenditure as a % of GDP is approximately
- (a) 15%.
  - (b) 20%.
  - (c) 35%.
  - (d) 60%.
29. Which one of the following government economic objectives tends to have a trade-off in the short term?
- (a) economic growth and full employment
  - (b) price stability and external balance
  - (c) equitable income distribution and price stability
  - (d) full employment and price stability
30. During the Global Financial Crisis, which one of the following indicators increased in Australia?
- (a) the rate of inflation
  - (b) the rate of economic growth
  - (c) the Current Account Deficit
  - (d) the rate of unemployment

**End of Section One**

**See next page**

**Section Two: Data interpretation/Short response****50% (50 Marks)**

This section has **four (4)** questions. Answer **all** questions. Write your answers in the space provided.

Spare pages are included at the end of this booklet. They can be used as additional space if required to continue an answer. If you need to use the space to continue an answer, indicate in the original answer space where the answer is continued, i.e. give the page number. Fill in the number of the question(s) that you are continuing to answer at the top of the page.

Suggested working time: 90 minutes.

---

**Question 31****(10 marks)**

This question refers to the article below, which appeared in *The West Australian* on 30 December 2009.

WA mango lovers will pay top dollar for their favourite fruit this summer because heat and sunburn have cut supply by 50 per cent. Mangoes will start arriving in Perth from Carnarvon next week as growers work 14 hour days to get the fruit picked and sent to the market as quickly as possible. Growers in Broome and the Ord are finished for the season, so all produce will come from the Carnarvon region. The heatwave in November burnt most of the fruit, so prices are expected to be forced up to \$6 each.

- (a) (i) Identify **one (1)** factor that has caused the reduction in the supply of mangoes. (1 mark)

---

- (ii) Describe, with the use of a demand and supply diagram, the change in the mango market. (3 marks)

---

---

---

---

Diagram:

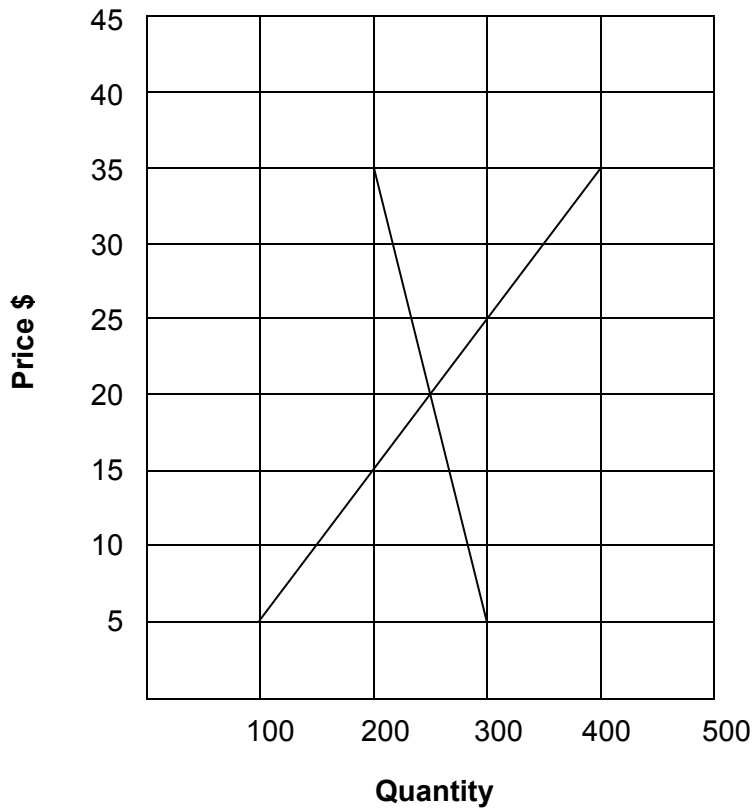




Question 32

(15 marks)

This question refers to the following hypothetical demand and supply data for recently-released DVD movies sold at a large retail store.



(a) Use the data from the graph to complete the following table: (2 marks)

Price	Quantity demanded	Quantity supplied
\$5		
\$20		
\$35		

(b) (i) State a formula that can be used to calculate price elasticity of demand. (1 mark)

---



---

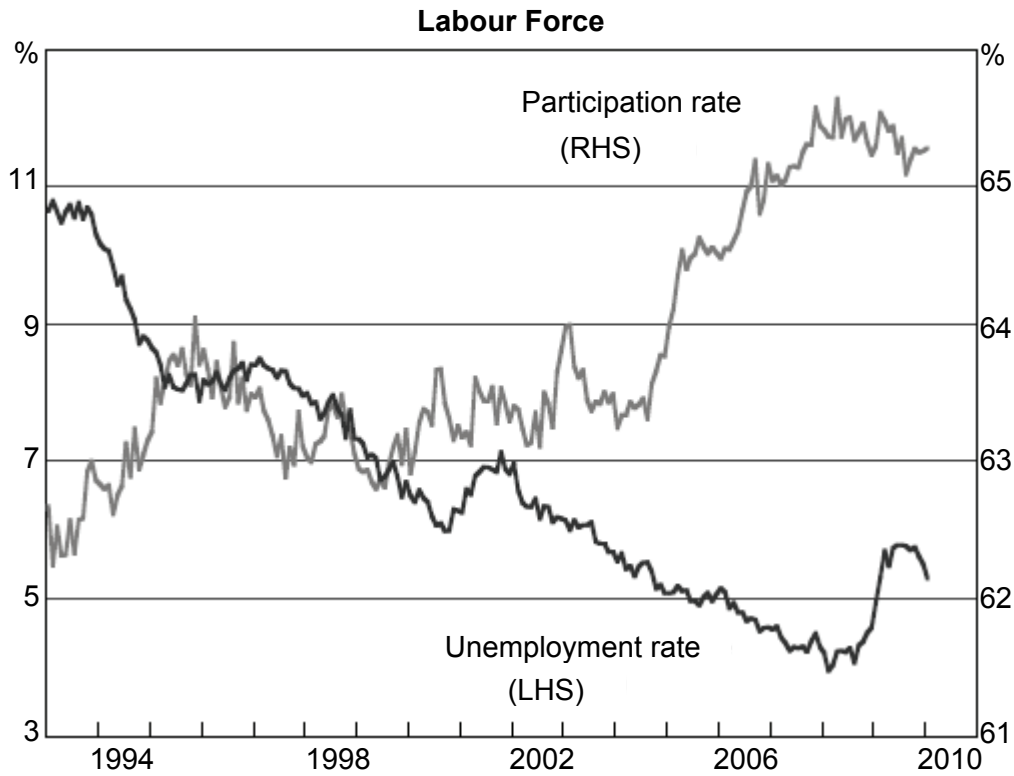
- (ii) If the price was increased from \$20 to \$35, calculate the price elasticity of demand coefficient. (1 mark)
- \_\_\_\_\_
- \_\_\_\_\_
- (iii) Is the demand for DVD movies in this price range elastic or inelastic? (1 mark)
- \_\_\_\_\_
- (c) Outline **three (3)** factors that would affect the price elasticity of demand for recently released DVD movies. (3 marks)
- One: \_\_\_\_\_
- \_\_\_\_\_
- \_\_\_\_\_
- Two: \_\_\_\_\_
- \_\_\_\_\_
- \_\_\_\_\_
- Three: \_\_\_\_\_
- \_\_\_\_\_
- \_\_\_\_\_
- (d) (i) The government has decided to impose a \$10 sales tax on DVDs. Draw a new supply curve on the graph on page 10, demonstrating how this will affect the market. (1 mark)
- (ii) Identify the new equilibrium price and quantity in the market. (1 mark)
- Price: \_\_\_\_\_
- Quantity: \_\_\_\_\_



Question 33

(15 marks)

This question refers to the graph shown below.



Source: RBA Chart Pack

(a) (i) State the highest rate of labour force participation shown on the graph. (1 mark)

\_\_\_\_\_

(ii) In what year was the unemployment rate the lowest? (1 mark)

\_\_\_\_\_





Question 34

(10 marks)

This question refers to the schedule of Australian marginal tax rates for 2009–2010 shown below.

Taxable income	Marginal tax rate
\$1 - \$6000	Nil
\$6001 - \$35 000	15c for each \$1 over \$6000
\$35 001 - \$80 000	30c for each \$1 over \$35 000
\$80 001 - \$180 000	38c for each \$1 over \$80 000
\$180 001 and over	45c for each \$1 over \$180 000

Source: ATO Individual income tax rates

- (a) (i) Determine the marginal tax rate for a person earning \$50 000. (1 mark)

---

- (ii) From the schedule, calculate how much income tax a person earning \$10 000 would have to pay. (1 mark)

---

- (b) (i) Is the income tax schedule progressive, regressive or proportional? (1 mark)

---

- (ii) Use evidence from the schedule to justify your answer in (b) (i). (2 marks)

---



---



---



---



---

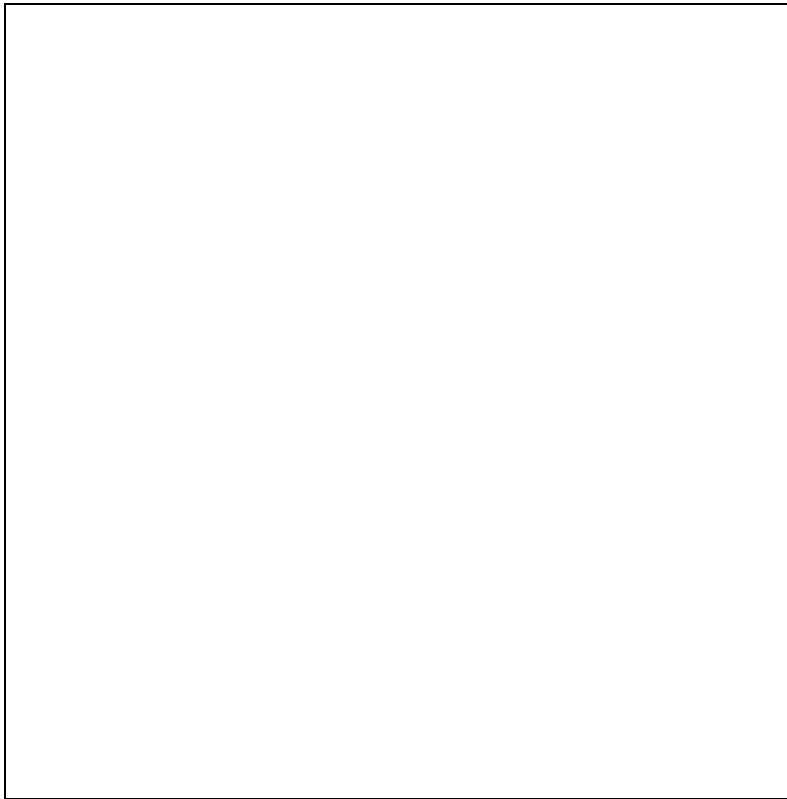


---



- (c) Explain, with the use of the Lorenz curve, the impact of the Government on income distribution in Australia. (5 marks)

Diagram:



---

---

---

---

---

---

---

---

---

---

---

**End of Section Two**

**See next page**

**Section Three: Extended response****20% (20 Marks)**

This section contains **two (2)** questions. You must answer **one (1)** question. Write your answer on the lined pages provided.

Pages are included at the end of this booklet for planning and writing your answer.

- Planning: If you use the pages for planning, indicate this clearly at the top of the page.
- Answering the question: In the pages provided indicate clearly the question number you are answering.

Suggested working time: 45 minutes.

---

**Question 35****(20 marks)**

- (a) Outline the factors that affect the level of competition in competitive markets, oligopolies and monopolies. (6 marks)
- (b) Using the concepts of consumer and producer surplus and a demand and supply diagram, explain why competitive markets are more efficient than monopolies. (6 marks)
- (c) Explain why attempts by the government to improve equity by imposing price restrictions lead to markets operating inefficiently. (8 marks)

**Question 36****(20 marks)**

- (a) Evaluate Gross Domestic Product (GDP) as a measure of economic welfare. (8 marks)
- (b) Describe Australia's recent economic growth performance and **four (4)** major influences on this performance. Include at least one domestic and one international influence. (6 marks)
- (c) Discuss **three (3)** costs and **three (3)** benefits of economic growth. (6 marks)

**End of questions**





















## ACKNOWLEDGEMENTS

### Section Two

- Question 31** Quinton, S. (2009, December 30). Short season could see mangoes sell at \$6 each. *The West Australian*, p. 7.
- Question 33** Reserve Bank of Australia. (2010). Chart Pack: *Labour Force*. Retrieved April, 2010, from: <http://www.rba.gov.au/chart-pack/labour-market-developments.pdf>
- Question 34** Table: Australian Taxation Office. (2010). *Individual income tax rates*. Retrieved April, 2010, from: <http://www.ato.gov.au/individuals/content.asp?doc=/content/12333.htm&pc=001/002/046/002/002&mnu=&mfp=&st=&cy=1>

This examination paper – apart from any third party copyright material contained in it – may be freely copied, or communicated on an intranet, for non-commercial purposes in educational institutions, provided that it is not changed and that the Curriculum Council is acknowledged as the copyright owner. Teachers in schools offering the Western Australian Certificate of Education (WACE) may change the examination paper, provided that the Curriculum Council's moral rights are not infringed.

Copying or communication for any other purpose can be done only within the terms of the Copyright Act or with prior written permission of the Curriculum Council. Copying or communication of any third party copyright material can be done only within the terms of the Copyright Act or with permission of the copyright owners.