Year 11 2AB Economics Semester Two Exam Marking Key

Section 1: Multiple Choice

1. C
2. A
3. A
4. B
5. D
6. C
7. C
8. B
9. D
10. B
11. D
12. D
13. A
14. C
15. B
16. A
17. B
18. C
19. C
20. D
21. D
22. A
23. B
24. A
25. B
26. C
27. B
28. D
29. C
30. A

Section 2: Data Interpretation

Question 31 (9 marks)

 a) Calculate the missing figures in the table above, (i), (ii) and (iii)

|  |  |
| --- | --- |
| DESCRIPTION | MARK |
| i) $26.6b | 1 |
| ii) $-25.5b | 1 |
| iii) $-26.4b | 1 |
|  TOTAL  | 3 |

b) Circle the correct term from the alternatives (in bold) in this statement

|  |  |
| --- | --- |
| DESCRIPTION | MARK |
| debit | 1/2 |
| services | 1/2 |
| debit | 1/2 |
| goods | 1/2 |
|  TOTAL  | 2 |

c) Explain how the following could impact on Australia’s current account balance:

(i) an upswing in the business cycle:

|  |  |
| --- | --- |
| DESCRIPTION | MARK |
| Increased CAD due to increased imports as a result of increased incomes/spending | 1 |
| Increased net income deficit as returns on increased foreign investment flow overseas | 1 |
| Students may have an increase in domestic investment may increase capital imports which may increase the CAD |  |
|  TOTAL  | 2 |

ii) The value of the Australian dollar (AUD) falls from $1.02 US to $0.94c US.

|  |  |
| --- | --- |
| DESCRIPTION | MARK |
| Exports become cheaper leading to a rise in X and rise in BOGS and fall in CAD | 1 |
| Imports become more expensive leading to a fall in M and rise in BOGS and rise in CAD | 1 |
|  TOTAL  | 2 |

Question 32 (14 marks)

a) Distinguish between the four main types of unemployment

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| --- | --- |
| DESCRIPTION | MARK |
| Cyclical UE – (demand deficient) UE occurs when the level of economic activity (AD) is not high enough to fully employ the country’s resources | 1 |
| Structural UE – occurs when there is a mismatch between skills and job vacancies | 1 |
| Frictional UE – occurs when people are between jobs can be voluntary or involuntary | 1 |
| Seasonal UE – occurs when jobs do not last all year | 1 |
| Hard-core UE – occurs when people are unemployed because of their personal characteristics |  |
|  TOTAL  | 4 |

b. Describe the trend in Australia’s unemployment rate over the past year and provide two reasons to explain this trend.

|  |  |
| --- | --- |
| DESCRIPTION | MARK |
| Unemployment has steadily increased over the period shown – from around 5.6% to 6%.  | 1 |
| Reasons:* Slowdown in economic activity (weak GDP growth) would reduce demand for employment
* Mining boom ends reducing demand for mining related employment; structural change could lead to a loss of jobs e.g. in manufacturing
 | 11 |
|  TOTAL  | 3 |

c. What is meant by ‘the natural rate of unemployment’?

 What is Australia’s natural rate of unemployment?

|  |  |
| --- | --- |
| DESCRIPTION | MARK |
| The natural rate of unemployment is the rate of unemployment that corresponds to ‘full employment’ or zero cyclical unemployment. It consists of just frictional & structural unemployment | 1 |
| Australia’s natural rate of unemployment is equal to approx. 5% (accept between 4.5 – 5)  | 1 |
|  TOTAL  | 2 |

d. Why is the inflation rate an important economic indicator?

|  |  |
| --- | --- |
| DESCRIPTION | MARK |
| Inflation is an important indicator because it can have negative effects on the economy such as: (any two effects)* redistributes income
* reduces economic growth
* decreases competitiveness.
 | 2 |
|  TOTAL  | 2 |

e. Distinguish between the headline rate and the underlying rate of inflation.

 Provide a reason why the annual underlying rate is lower.

|  |  |
| --- | --- |
| DESCRIPTION | MARK |
| The headline rate is measured by the standard CPI | 1 |
| The underlying rate is ‘trims’ away the top price changes and the bottom price changes to give a more accurate view of inflation | 1 |
| The underlying rate may be lower because some of the extreme price changes, such as fruit & vegetable price rises, have been excluded | 1 |
|  TOTAL  | 3 |

Question 33 (12 marks)

a. From the four taxes in part (a), identify a progressive tax, a proportional tax and a regressive tax. Provide a reason for each choice

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| --- | --- |
| DESCRIPTION | MARK |
| Progressive tax – individual income tax: as income increases, the rate of tax increases | 1 |
| Proportional tax – company tax: each company pays the same rate of tax on profits | 1 |
| Regressive tax – either excise or sales tax: amount of tax is the same regardless of one’s income, so the tax rate falls as income increases  | 1 |
|  TOTAL  | 3 |

b. Explain how the following changes to Australia’s taxes would affect the equity, efficiency and simplicity of Australia’s taxation system:

(i) The government announces that personal income tax will be changed so that everyone will pay 15% of their income in tax

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| --- | --- |
| DESCRIPTION | MARK |
| This would reduce equity (or vertical equity) since low income taxpayers will pay the same rate of tax as high income taxpayers | 1 |
| But this change would improve simplicity – only one rate of tax | 1 |
| The change would also improve efficiency – costs of administration would be low  | 1 |
|  TOTAL  | 3 |

(ii) The government decides to replace the current 10% GST on goods and services with a new three tier system: a 5% rate on ‘necessity’ type goods and services; a 10% rate on ‘normal’ goods and services other goods and services; a 15% rate on luxury goods and services

|  |  |
| --- | --- |
| DESCRIPTION | MARK |
| This change could increase equity – high income taxpayers would pay more tax if they consume more luxury goods than low income people | 1 |
| But this change would reduce efficiency – different industries will have different tax rates, distorting the pattern of production  | 1 |
| This change would also reduce simplicity & make the tax system more complex  | 1 |
|  TOTAL  | 3 |

c. Calculate the proportion of total revenue accounted for by the following taxes: (3 marks) (rounded to whole number)

 i. Individuals income tax 47% (183.6/391.4)

 ii. Company & resource rent taxes 19% (75.3/391.4)

 iii. Total indirect taxes 24% (sales tax + excise + customs = 93.9/391.4)

 Question 34 (20 marks)

a. Use a diagram to explain why the equilibrium output is the efficient output

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| --- | --- |
| DESCRIPTION | MARK |
| The equilibrium output is where Demand = SupplyNo tendency for change | 1 |
| Define Producer and Consumer surplus | 1 |
| At equilibrium, the sum of consumer & producer surplus is maximised – this means that net benefits are maximised for society – there is no DWL | 2 |
| Fully labelled D/S Diagram - showing equilibrium & correctly shaded areas for consumer & producer surplus, | 2 |
|  TOTAL  | 6 |

b. Explain why each of the following is a type of market failure:

 i. Negative externality

 ii. Positive externality

 iii. Public good

 iv. Common resource

 v. Market power

|  |  |
| --- | --- |
| DESCRIPTION | MARK |
| 2 marks for each (must say how market fails to get the extra mark) – 1 mark for definition & one mark to say why the market ‘fails’ |  |
| A negative externality occurs when the production of a good creates an external cost e.g. a firm polluting the environment. The market fails because the market quantity is greater than the optimal quantity. | 2 |
| A positive externality occurs when the consumption of a good creates an external benefit e.g. A person purchasing a flu vaccine. The market fails because the market quantity is less than the optimal quantity | 2 |
| A public good is a good that is non-rival in consumption and non-excludable e.g. national defence or a lighthouse. The market fails because it does not supply public goods (no price). | 2 |
| A common resource is a god that is rival in consumption but non-excludable (fish in the ocean). The market fails because these goods are overexploited – tragedy of the commons | 2 |
| Market power refers to the ability of a firm to influence or control the market price e.g. a monopoly or oligopoly firm. The market fails because prices are higher & output is lower than a competitive market | 2 |
|  TOTAL  | 10 |

c. Explain how government policy could help resolve the market failure associated with a negative externality and a common resource

|  |  |
| --- | --- |
| DESCRIPTION | MARK |
| Negative externality:The government could use a tax equal to the external cost Forcing the polluting firm pays for the social cost. DIAGRAMOr the government could use regulation to set limits to the amount of pollutionEG | 11 |
| Common resource:Govt. needs to restrict access or use of the resource to prevent the ‘tragedy of the commons’. EG :In the case of fishing, the government could impose quotas on the ‘catch’ or could impose fishing licences or fees to regulate the amount of fishing. | 11 |
|  TOTAL  | 4 |

Question 35 (20 marks)

a. Explain the importance of the following economic objectives of the Australian Government:

 i. sustainable economic growth

 ii. low unemployment (full employment)

 iii. low inflation (price stability),

 iv. a more equitable distribution of income

|  |  |
| --- | --- |
| DESCRIPTION | MARK |
| 2 marks for each – 1 mark for defining the objective & 1 mark for saying why it is important |  |
| Achieving a rate of growth so that unemployment is kept low and inflation is kept low – annual growth in real GDP should be around 3.5%. This is important because it helps to increase real income & living standards over time | 2 |
| Full employment means keeping unemployment at the ‘natural rate’. This equates to an unemployment rate of around 5% - which includes just frictional & structural unemployment). Low unemployment is important to enable most people to have a job & earn income& reduce the social costs of unemployment | 2 |
| The Reserve Bank’s target range for inflation is 2-3% on average over the business cycle. Low inflation is important because it helps to keep the cost of living down & promotes long term growth | 2 |
| This means achieving a fairer income distribution – reducing the income of the ‘rich’ and transferring it to the low income groups in society. A fairer distribution of income helps increase overall economic welfare & provides for a more just & caring society | 2 |
|  TOTAL  | 8 |

b. Explain how economic growth, inflation and unemployment are measured

|  |  |
| --- | --- |
| DESCRIPTION | MARK |
| 2 marks for each – 1 mark for basic definition plus 1 mark for extra |  |
| Economic growth is measured by calculating the percentage change in real GDP. Gross domestic product is the total value of final goods & services produced in the economy. Real GDP is It is important to remove the effect of price changes because we are measuring the increase in production | 2 |
| The Unemployment rate is the number of people unemployed divided by the labour force. The labour force includes both employed & unemployed. To be unemployed a person must not have a job but must be actively seeking a job. | 2 |
| The Inflation rate is measured by the percentage change in the consumer price index (CPI). The CPI measures price changes for a basket of goods & services consumed by an average household. Different goods & services are weighted according to their importance in the household’s budget. | 2 |
|  TOTAL  | 6 |

c. Discuss the costs of high inflation and high unemployment on the economy

|  |  |
| --- | --- |
| DESCRIPTION | MARK |
| Costs of high inflation (need 3):* reduces international competitiveness
* increases cost of living which reduces real income of households
* redistributes income;
* increases uncertainty & can reduce economic growth;
* encourages speculative investment
* distorts decision making & adversely affects resource allocation
 | Up to 3 marks |
| Costs of high unemployment (need 3):* reduces real incomes & living standards
* results in lower levels of C, I and business confidence
* increased spending by governments on welfare reduces spending in other areas – opportunity cost
* high social costs such as crime, health, divorce
 | Up to 3 marks |
|  TOTAL  | 6 |