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.

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| --- | --- |
| 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 | 1  1 |
| TOTAL | 3 |

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

What is Australia’s natural rate of unemployment?

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| --- | --- |
| 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 = Supply  No 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.  DIAGRAM  Or the government could use regulation to set limits to the amount of pollution  EG | 1  1 |
| 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. | 1  1 |
| 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

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| --- | --- |
| 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

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| --- | --- |
| 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 |