

ETAWA Exam Stage 2 2015

Marking Guide

Section 1

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

Section 2

Question 31 (13 marks)

a. Label the D & S curves There would be an increase in demand – draw a new D curve World price & quantity would both increase	1 mark 1 mark 1 mark
b. Label the D & S curves There would be a decrease in supply – draw a new S curve World price would increase while quantity would decrease	1 mark 1 mark 1 mark
c. Correctly labeled diagram showing increase in D & decrease in S Price must increase But quantity is indeterminate – it may increase or decrease depending on whether the D curve or the S curve shifts more	1 mark 1 mark 1 mark
d. The demand for all chocolate likely to be inelastic – broad definition of the market, few substitutes, bought infrequently, small percentage of total budget The demand for Mars chocolate bars will be more elastic – narrow definition, demand for single brand always elastic due to many close substitutes	1 mark 1 mark 1 mark 1 mark

Question 32 (12 marks)

a. Because the air pollution from cars & trucks creates a negative side effect on children – adversely affecting their learning	1-2 marks
b. Private costs – cost of manufacturing motor vehicles, cost of fuel	1 mark
Social cost – includes the external cost of air pollution in terms of health effects plus the private cost	1 mark
c. Label the D curve & the private S curve, show the initial market equilibrium P & Q	1 mark
Draw the new social S curve (above the Sp curve) & label the new social equilibrium (price is higher & qty is lower)	1-2 marks
The market ‘fails’ because it produces too much – it over-allocates resources to the motor vehicle industry creating a deadweight loss. Show the DWL on the diagram. Total surplus is lower because market quantity exceeds the efficient quantity.	1-3 marks
d. i. Place a tax on motor vehicle industry where tax is equal to the external cost	1 mark
ii. Government regulation limiting the type/quantity of toxic emissions	1 mark

Question 33 (15 marks)

a. Real GDP	1 mark
b. consumption; investment; government; net exports	0.5 x 4 = 2 marks
c. Investment is expenditure on producer or capital goods e.g. machinery, construction, office buildings, new housing	1 mark defn. 1 mark examples
d. Decrease in business/household confidence Decrease in China's (world) economic growth reducing demand for Australia's resources	1 mark 1 mark
e. Vertical axis – level of economic activity or real GDP Horizontal axis – time (years)	1 mark 1 mark
f. Half mark for each: expansion, peak, contraction trough	0.5 x 4 = 2 marks
g. China is Australia's main trading partner – it purchases much of Australia's resource exports such as iron ore & coal as well as education exports. If the Chinese economy slows, then it will cause a contraction in Australia's economy. Australia's net exports will fall which will reduce the level of economic activity in Australia. Business investment is likely to fall which will reduce production & employment in Australia.	1-2 marks 1-2 marks

Question 34 (10 marks)

<p>a. June 2011</p> <p>Unemployment is close to full employment (natural rate of unemployment is around 5%) OR</p> <p>Inflation is at its highest for the period (3.5%) – indicating demand pressures</p>	<p>1 mark</p> <p>1 mark</p>
<p>b. Headline rate refers to the change in the CPI</p> <p>The underlying rate removes the extreme price changes from the CPI to provide a ‘core’ rate of inflation (students may refer to the 2 statistical measures used by the RBA: trimmed mean & weighted median).</p>	<p>1 mark</p> <p>1 mark</p>
<p>c. Cost inflation</p> <p>Because unemployment has risen to over 6% - indicating cyclical unemployment</p>	<p>1 mark</p> <p>1 mark</p>
<p>d. Unemployment rate</p> <p>= no. of unemployed / labour force x 100</p> <p>Participation rate</p> <p>= labour force / working age population x 100</p>	<p>1 mark</p> <p>1 mark</p>
<p>e. The unemployment rate increased because the economy’s growth rate must have slowed – employment did not grow as fast as the labour force</p> <p>The participation rate normally declines when the economy is weak & job prospects are poor, so people stop looking for work & leave the labour force</p>	<p>1 mark</p> <p>1 mark</p>

Section 3

Question 35 (20 marks)

<p>a. Price ceiling – a maximum price regulation set below the equilibrium price</p> <p>Reason – to keep prices low for consumers e.g. housing /rental markets</p> <p>D/S diagram showing a price ceiling – diagram clearly shows a shortage ($Q_d > Q_s$)</p> <p>Price floor – a minimum price regulation set above the equilibrium price</p> <p>Reason – to keep prices high for producers e.g. agricultural markets</p> <p>Correctly labeled D/S diagram showing a price floor – diagram clearly shows a surplus ($Q_s > Q_d$)</p>	<p>1-3 marks</p> <p>1-3 marks</p> <p>1-3 marks</p> <p>1-3 marks</p>
<p>b. Student can choose either a price ceiling or a price floor</p> <p>Need to show the changes to consumer and producer surplus as a result of the price regulation.</p> <p>Price ceiling – consumer surplus usually increases because consumers pay less, but producer surplus decreases because producers sell less at a lower price. The shortage causes total surplus to decrease – there is a DWL</p> <p>Price floor – producer surplus usually increases because producers receive a higher price, but consumer surplus decreases because consumers pay more & consume a smaller quantity. The surplus causes total surplus to decrease – there is a DWL</p> <p>Both price ceilings & price floors are inefficient because they create a DWL – total surplus is lower</p>	<p>1-3 marks for correct diagram</p> <p>1-3 marks for explanation</p> <p>1-2 marks</p>

Question 36 (20 marks)

<p>a. Tax criteria</p> <p>i. equity (fairness) – should discuss both horizontal & vertical equity</p> <p>ii. simplicity – taxes should be simple so that taxpayers understand the rules and can comply with them correctly and in a cost-efficient manner</p> <p>iii. efficiency – taxes should not distort decision making, taxes should have neutral effects across different industries</p> <p>Personal income tax helps to achieve vertical equity because it is progressive – as income rises, the tax rate rises, but it is far from simple, very high compliance costs</p> <p>GST – relatively simple & efficient tax – single rate across most industries which makes it neutral. Fresh food is exempt which helps low income earners, however it is a regressive tax which reduces vertical equity</p>	<p>3 x 2 marks for discussion of each criteria</p> <p>1-2 marks</p> <p>1-2 marks</p>
<p>b. Basically 5 marks for discussion of each economic objective – define & explain importance</p> <p>i. Income distribution - to what extent is income/wealth distributed equally across the population, should mention the Lorenz curve/Gini coefficient as a measure of income inequality – trying to shift the Lorenz curve closer to the diagonal. This objective is about improving fairness in society, helping those in need. A fair society is a just society. Progressive income tax is Australia’s largest tax and so this helps to redistribute income. The largest categories of Commonwealth govt spending is on social security & welfare & health.</p> <p>ii. Sustainable economic growth – achieving a rate of economic growth that keeps the economy at full employment without causing inflationary pressures or putting too much pressure on environmental resources. Growth is measured by the percentage change in real GDP – target rate is between 3-3.5% annual growth.</p> <p>Economic growth is important because it enable an increase in living standards – the ultimate objective. To improve the economic welfare of people. Economic growth can increase the quantity & quality of goods & services consumed by people, it can increase people’s leisure time through increases in productivity, growth can enable govts to provide more community services,</p>	<p>1-5 marks</p> <p>1-5 marks</p>