

# **Economic Teachers Association of W.A.**

# ECONOMICS Examination 2015 ATAR Year 11 – Units 1 and 2

Student Name: \_\_\_\_\_

# 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 (blue/black preferred), pencils (including coloured), sharpener, correction fluid/tape, eraser, ruler, highlighters Special items: non-programmable calculators approved for use in the WACE examinations

# 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.

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
	-	-		Total	100

# Structure of this paper

# Instructions to candidates

1. 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, then shade your new answer. Do not erase or use correction fluid/tape. Marks will not be deducted for incorrect answers. No marks will be given if more than one answer is completed for any question.

Sections Two and Three: Write your answers in this Question/Answer Booklet.

- 2. 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.
- 3. Spare pages are included at the end of this booklet. They can be used for planning your responses and/or as additional space if required to continue an answer.
  - Planning: If you use the spare pages for planning, indicate this clearly at the top of the page.
  - Continuing 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 that you are continuing to answer at the top of the page.

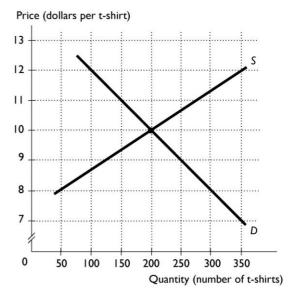
# **Section 1: Multiple Choice**

# 30% (30 Marks)

This section has **30** questions. Answer **all** questions on the separate Multiple-choice Answer Sheet provided. 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. If the price of mandarins increases, the price of oranges also rises because
  - A. consumers consider the two goods complements and so sellers decreased the supply of oranges.
  - B. consumers consider the two goods substitutes and demand for oranges increases.
  - C. if the supply of mandarins decreased, then the supply of oranges also must decrease.
  - D. buyers must have expected a higher price for oranges and thus increased their demand for oranges.
- 2. Suppose that a just published report on the health effects of riding bicycles causes demand to increase. As a result of the increased demand, more firms enter the market to produce bicycles and the supply of bicycles increases. We can predict that
  - A. the prices of bicycles will increase.
  - B. the prices of bicycles will decrease.
  - C. the prices of bicycles will remain the same.
  - D. we cannot predict the price of bicycles with the information provided.
- 3. The figure shows the market for tshirts. If the price of t-shirts is \$12, then
  - A. there is a shortage and the price of t-shirts will fall.
  - B. there is a shortage and the price of t-shirts will rise.
  - C. there is a surplus and the price of t-shirts will rise.
  - D. there is a surplus and the price of t-shirts will fall.



- 4. Plywood is used in the construction of houses. If the price of plywood rises, what happens to the supply of houses?
  - A. The supply increases so that the supply curve shifts rightward.
  - B. The supply decreases so that the supply curve shifts leftward.
  - C. The quantity supplied increases but there is no shift in the supply curve.
  - D. The quantity supplied decreases but there is no shift in the supply curve.
- 5. The price elasticity of demand for furniture is estimated at 1.3. This value means a one percent increase in the
  - A. price of furniture will increase the quantity of furniture demanded by 1.3 percent.
  - B. price of furniture will decrease the quantity of furniture demanded by 1.3 percent.
  - C. quantity of furniture demanded will decrease the price of furniture by 1.3 percent.
  - D. quantity of furniture demanded will increase the price of furniture by 1.3 percent.
- 6. If Sam wants to increase her total revenue from her sales of flowers and she knows that the demand for flowers is price elastic, she should
  - A. lower her price to increase the demand and shift the demand curve rightward.
  - B. raise her price because she knows that the quantity demanded will also increase.
  - C. raise her price because she knows that the percentage decrease in the quantity demanded will be smaller than the percentage increase in price.
  - D. lower her price because she knows that the percentage increase in the quantity demanded will be greater than the percentage decrease in price.
- 7. Toothpaste and toothbrushes are complements, so the \_\_\_\_\_\_ elasticity of demand is \_\_\_\_\_\_.
  - A. cross; positive
  - B. income; negative
  - C. cross; negative
  - D. income; positive
- 8. If the income elasticity for chocolate chip cookies is 1.8, then chocolate chip cookies are
  - A. a normal good and income elastic.
  - B. a normal good and income inelastic.
  - C. an inferior good and income inelastic.
  - D. an inferior good and income elastic.

- 9. The latest model car in the dealer's showroom has a sticker price of \$35,000.00. Fred, the shopper, has decided that he would pay no more than \$32,000.00 for the car. After two hours of bargaining with the saleswoman, Fred actually purchases the car for \$31,000.00. Fred, therefore, has obtained a consumer surplus of
  - A. \$1,000
  - B. \$4,000
  - C. \$32,000
  - D. \$35,000
- 10. At the current level of output, the marginal cost of pizzas exceeds the marginal benefit of pizzas. Compared to the allocatively efficient quantity we are producing too \_\_\_\_\_\_ pizzas and too \_\_\_\_\_\_ of other goods.
  - A. few; little
  - B. few; much
  - C. many; little
  - D. many; much
- 11. One important feature that distinguishes a public good from a private good is that
  - A. only the government can produce public goods.
  - B. it is impossible to prevent a person from enjoying the benefits from a public good.
  - C. if you pay for a unit of a public good, you are guaranteed to be the sole consumer.
  - D. if you consume a unit of a public good, there is one unit less for someone else.
- 12. If there is an external cost from making paper, an unregulated competitive market produces
  - A. less than the efficient quantity.
  - B. the efficient quantity.
  - C. more than the efficient quantity.
  - D. a quantity that could be greater than, the same as, or less than the efficient amount.
- 13. A green pasture has turned barren due to overgrazing. This happened because the pasture was \_\_\_\_\_.
  - A. non-excludable and rival
  - B. non-excludable and non-rival
  - C. excludable but non-rival
  - D. excludable but rival

- 14. Firms with market power tend to charge a \_\_\_\_\_ price and produce a \_\_\_\_\_ quantity than firms in a competitive market
  - A. lower; greater
  - B. higher; lower
  - C. lower; lower
  - D. higher; greater
- 15. Government policy designed to assist low-income families through welfare payments is intended to improve economic
  - A. equity.
  - B. efficiency.
  - C. stability.
  - D. allocation.
- 16. A country that has many well-trained macroeconomic analysts will not necessarily have more beneficial macroeconomic policies because
  - A. economists' understanding of the economy remains poor.
  - B. there are few ways in which economists' complex models can be applied to the real world.
  - C. economists agree on so few government policies.
  - D. economic policy is usually made by politicians, not economists.
- 17. If the economy is in equilibrium while the government budget is in deficit and exports are greater than imports then, according to the circular flow model,
  - A. saving is greater than investment.
  - B. saving is less than investment.
  - C. saving equals investment.
  - D. saving could be greater than or equal to investment.
- 18. The period between a trough in the business cycle and the subsequent peak
  - A. is the trend around which the economy cycles.
  - B. is generally shorter than the period between a peak and the subsequent trough.
  - C. is termed the "downswing" period of the business cycle.
  - D. is generally longer than the period between a peak and the subsequent trough.
- 19. A variable that tends to move at the same time as aggregate economic activity is called
  - A. a leading indicator.
  - B. a lagging indicator.
  - C. a coincident indicator.
  - D. a procyclical indicator.

- 20. Choose the correct statement concerning gross domestic product (GDP).
  - A. GDP can be equivalently viewed as either total income accruing from production of final output, or as total expenditures on final output.
  - B. GDP is the total market value of all goods and services consumed in a year.
  - C. The value of GDP can be found by adding together wages, consumption, investment, and net exports.
  - D. Increases in real GDP indicate that each individual in society is better off than previously.
- 21. Jane just graduated with her degree in economics. Through Career Services she submitted her resume to several companies and she will visit them during the next two weeks. Jane is considered
  - A. not in the labor force.
  - B. frictionally unemployed.
  - C. structurally unemployed.
  - D. cyclically unemployed.
- 22. For the CPI to provide an accurate measure of the prices paid by consumers, it is necessary to
  - A. assign equal weights to all the goods and services included in the market basket surveyed so that nothing is over-weighted.
  - B. have prices stated in dollars so consumers can compare what they spend.
  - C. have a market basket that is consistent and corresponds to what households actually purchase.
  - D. change the market basket each month to reflect the changes that consumers make.
- 23. There is an increase in the minimum rate of employer superannuation contributions from 9% to 12% of wages. Which of the following is the most likely effect of this increase?
  - A. Increased cost inflation
  - B. Decreased cost inflation
  - C. Increased demand inflation
  - D. Decreased demand inflation
- 24. How are the foreign company dividends paid to Australian investors recorded on Australia's Balance of Payments?
  - A. As a debit on the current account
  - B. As a credit on the current account
  - C. As a debit on the capital and financial account
  - D. As a credit on the capital and financial account

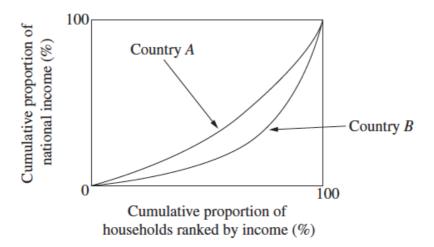
- 25. Which of the following is <u>not</u> a role of the government in a modified market economy?
  - A. The regulation of business enterprises
  - B. Stabilsing the business cycle
  - C. Stablising the balance of payments
  - D. Redistributing income through taxation and spending
- 26. Australia's two most important trading partners are
  - A. China and United States
  - B. ASEAN and South Korea
  - C. United States and Europe
  - D. China and Japan
- 27. Australia's mining boom has resulted in a significant increase in foreign investment. Which of the following shows the effects of this increase on Australia's Balance of Payments?
  - A. An increase in the primary income deficit and an increase in the financial account surplus.
  - B. An increase in the primary income deficit and a decrease in the financial account surplus.
  - C. A decrease in the primary income deficit and an increase in the financial account surplus.
  - D. A decrease in the primary income deficit and a decrease in the financial account surplus.
- 28. The table shows balance of payments data for an economy.

	\$ billion
Exports	?
Imports	700
Net services	100
Net primary income	-150
Net secondary	-20
Balance on capital & financial account	200

What is the value of exports?

- A. \$330bn
- B. \$700bn
- C. \$570bn
- D. \$770bn

# 29. The diagram shows the Lorenz curves for Country A and Country B.



Which of the following statements is most likely to explain the different income distribution in Country A and Country B?

- A. Country A has higher rates of saving than Country B.
- B. Country A has higher GDP per capita than Country B.
- C. Country A has higher incentives for entrepreneurs than Country B.
- D. Country A has higher social welfare spending than Country B.
- 30. The table shows employment data for an economy

	Year 1	Year 2	Based on the data in the table, what is the
Part-time employed persons	200 000	210 000	
Full-time employed persons	600 000	640 000	
Unemployed persons	100 000	110 000	change in the labour
Working age population	1 500 000	1 570 000	force
1			between

Year 1 and Year 2?

- A. 40 000
- B. 50 000
- C. 60 000
- D. 70 000

End of Section 1

See next page

Section Two: Data interpretation/Short response

50% (50 Marks)

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

Spare pages are included at the end of this booklet. They can be used for planning your responses and/or as additional space if required to continue an answer.

- Planning: If you use the spare pages for planning, indicate this clearly at the top of the page.
- Continuing 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 that you are continuing to answer at the top of the page.

Suggested working time: 90 minutes.

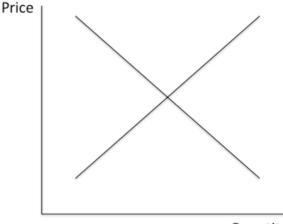
# **Question 31**

## (13 marks)

## Sad news for chocolate lovers

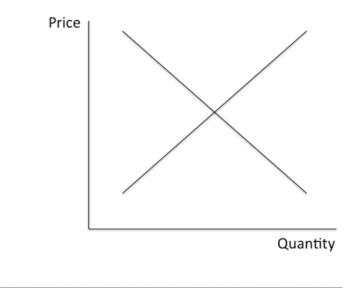
Its sad news for chocolate lovers – the price of chocolate is rising! The amount of cocoa the world can produce is set to fall well behind the amount people are eating. Mars Inc., the world's biggest chocolate maker, says the gap will reach 1 million tons next year and will widen to 2 million tons by 2030. What's driving the rise in price? Both supply and demand factors. World incomes are rising, especially in the more populous countries of China and India. At the same time, drought and disease are having a devastating effect in some of the major cocoa growing regions of the world.

a. Use the diagram below to explain the effect on the chocolate market of an increase in world income. (3 marks)

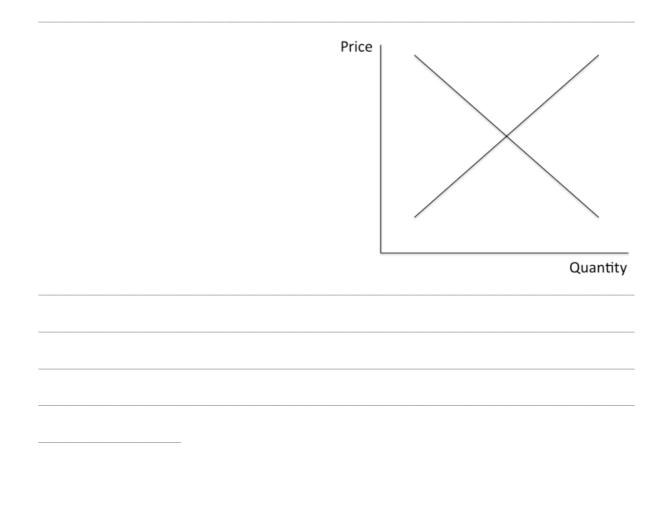


Quantity

b. Use the diagram below to explain the effect on the chocolate market of a new disease that affects cocoa production. (3 marks)



c. Use the diagram below to explain the combined effect of a rise in world income and a cocoa disease on the chocolate market. (3 marks)



d. Is the demand for all chocolate likely to be price elastic or price inelastic? Is the demand for Mars chocolate bars likely to be price elastic or price inelastic? Give reasons for your answers. (4 marks)

# **Question 32**

# (12 marks)

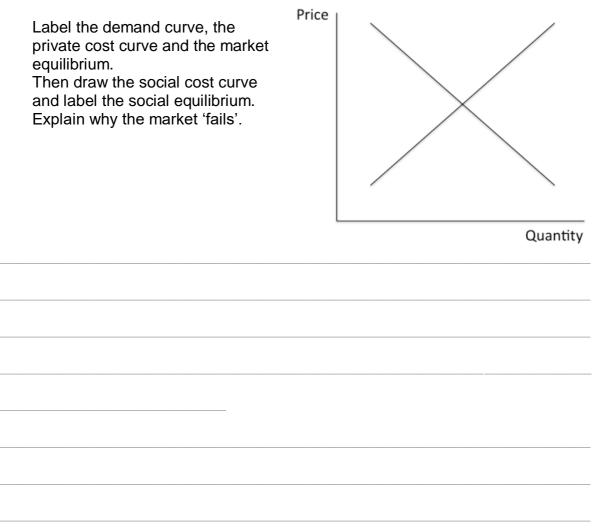
# Air pollution may affect students' grades

High levels of emissions from cars, trucks and buses near your home could hamper a child's grades, according to a new study. The study has found that fourth and fifth graders in the United States who are exposed to toxic air pollutants at home, such as diesel exhaust are more likely to have lower school results. The evidence suggests that this association might exist because of illnesses, such as respiratory infections or asthma and that exposure to air pollution can negatively affect children's brain development.

a. Refer to the extract to explain why air pollution from cars is an example of a negative externality. (2 marks)

b. Distinguish between the private costs and the social costs of the motor vehicle industry. (2 marks)

c. Use the diagram below to show the effect of the negative externality on the motor vehicle industry. (6 marks)

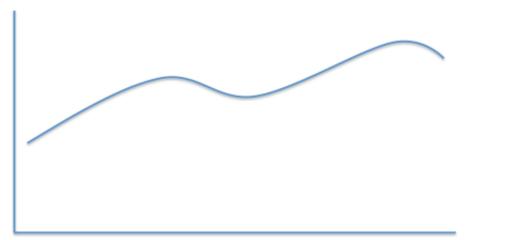


d. Explain two policies that the government could use to overcome the negative externality. (2 marks)

Qu	estion 33	(15 marks)
Ec	onomic growth to stay sluggish!	
	e Australian economy is expected to grow at a below-trend pace of 2.75 p 2015 because business investment is expected to be weak throughout the	
a.	What economic indicator is expected to grow by 2.75%?	(1 mark)
b.	What are the four components of aggregate expenditure?	(2 marks)
C.	Define investment and provide two examples.	(2 marks)

# d. Explain two factors that could cause investment to be weak in 2015. (2 marks)

The graph below represents a typical business cycle for an economy.



e. Label the axes on the graph

(2 marks)

- f. Write the following terms on an appropriate place on the graph: peak; trough; expansion; contraction. (2 marks)
- g. Explain how a slowdown in China would affect Australia's business cycle. (4 marks)



# **Question 34**

# (10 marks)

	Inflation	Inflation	Unemployment	Participation
	Headline	Underlying	rate	rate
	%	%	%	%
June 2011	3.5	2.8	5.0	65.4
June 2012	1.2	1.9	5.2	65.1
June 2013	2.4	2.5	5.7	65.1
June 2014	3.0	2.7	6.1	64.7
June 2015	1.5	2.3	6.1	64.9

### Australian Economic Indicators

a. Refer to the table. In which period would the economy be close to a business cycle peak? Explain your answer. (2 marks)

b. Distinguish between the headline rate of inflation and the underlying rate. (2 marks)

c. Which type of inflation (demand or cost) would be present in June 2014? Provide a reason for your answer. (2 mark)

d. Explain how the unemployment rate and the labour force participation rate are measured. (2 marks)

e. For the period between 2011 and 2015, explain why the unemployment rate increased while the labour force participation rate decreased. (2 marks)

End of Section 2

## Section Three: Extended response

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

Spare pages are included at the end of this booklet. They can be used for planning your responses and/or as additional space if required to continue an answer.

- Planning: If you use the spare pages for planning, indicate this clearly at the top of the page.
- Continuing 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 that you are continuing to answer at the top of the page.

Suggested working time: 45 minutes.

# **Question 35**

# (20 marks)

- a. Use the demand-supply model to explain the difference between a price ceiling and a price floor. Use examples to explain why the government may want to introduce these price regulations into a market and use your models to explain the effects on both price and quantity. (12 marks)
- b. For either a price ceiling or a price floor, explain the effects on both consumer and producer surplus. Is a price ceiling/price floor efficient? (8 marks)

### or

## Question 36

# (20 marks)

- a. Explain the tax concepts of equity, simplicity and efficiency. Discuss whether the personal income tax and the goods and services tax (GST) are equitable, simple and efficient. (10 marks)
- Explain the meaning and importance of the following government economic objectives a more equitable distribution of income and sustainable economic growth.
  (10 marks)

# End of Exam

20% (20 Marks)

Question number:		

Question number:	

Question number:	

Question number:	

Question number:	

Question number:	