****

**Year 11 ATAR Course Examination - Economics 2017**

**Marking Key**

|  |  |  |
| --- | --- | --- |
| **Sections** | **Questions** | **Total Marks** |
| Section 1 | 1 – 24 | 24 |
| Section 2 | 25 – 27 | 36 |
| Section 3 | 28 – 31 | 40 |

**100 marks total**

**Section 1 (24 marks)**

|  |  |
| --- | --- |
| **Question** | **Answer** |
|  | B |
|  | C |
|  | D |
|  | A |
|  | A |
|  | B |
|  | D |
|  | A |
|  | B |
|  | D |
|  | C |
|  | B |
|  | C |
|  | B |
|  | D |
|  | D |
|  | C |
|  | D |
|  | A |
|  | A |
|  | D |
|  | C |
|  | B |
|  | C |

**Section 2 (36 marks)**

**Question 25 (12 marks)**

|  |  |
| --- | --- |
| a. Equilibrium rent = $800; Equilibrium quantity = 300,000Correctly labelled D/S diagram | 1 mark1 mark |
| b. The price ceiling will create a shortageBecause Qty demanded (350,000) exceeds Qty supplied (250,000) | 1 mark1 mark |
| c. For equity (fairness) reasons – belief that market price is too high. A price ceiling will reduce the price to consumers | 2 marks |
| d. Correctly labelled D/S diagram showing price ceiling at $600 One mark for each of the following i. consumer surplus = *A* + *C* ii. producer surplus = *E*iii. deadweight loss = *B* + *D*.State that the price ceiling decreases market efficiency since it decreases total surplus (or creates a DWL). | 1-2 marks1-3 marks1 mark |



**Question 26 (12 marks)**

|  |  |
| --- | --- |
| a. i. 1.7% (allow +/- 0.1%)ii. 0.3% (allow +/- 0.1%)iii. March 2011 or Sept 2016 (anything else is incorrect)iv. There is no period of recession | 1 mark1 mark1 mark1 mark |
| b. Real GDP measures the final value of goods and services produced in the economy, taking into account inflation. | 1-2 marks |
| c. After 2012, the annual growth rate falls to between 2 and 3%.This was due to the end of the mining boom – mining investment fell and the economy slowed. | 1 mark1-2 marks  |
| d. Any **three** determinants of economic growth (1 mark each)Students could focus on increases in the quantity of resources **and/or** an improvement in the quality of resources – important that they understand what economic growth means – an increase in the productive capacity of the economyi. An increase in investment – adding to the capital stock (machinery, factories, infrastructure) will increase economic growthii. An increase in the productivity of workers – if output per worker increases, then real GDP will increase iii. An improvement in technology which improves the quality of capital iv. An increase in human capital (education) will increase labour productivity | 1 mark1-3 marks |

**Question 27 (12 marks)**

|  |  |
| --- | --- |
| a. U rate = No. of unemployed / Labour force x 100The U rate = 5.9% | 1 mark1 mark |
| b. A fall in the unemployment rate would indicate that job prospects are improving and therefore encourage people to enter the labour force – this would increase the participation rate. | 1-2 marks |
| c. The natural rate of U is estimated to be around 5%It consists of frictional (people moving from job to job) & structural (mismatch of skills) unemployment. | 1 mark 1 mark |
| d. An underemployed worker is someone who is employed part-time but wants to work more hours i.e. obtain full-time employment.The underemployment rate has been rising because of spare capacity in the economy – the economy has been subdued so while it may be relatively easy to obtain part-time work it is more difficult to get full-time employment.  | 1 mark1-2 marks |
| e. Real wages have been falling – the growth in wages has been less than the inflation rate. While the U rate has fallen, it disguises the fact that most employment growth has been for part-time work.Fears about job security would also reduce consumer confidence | 1-3 marks |

**Section 3 (40 marks) – Answer TWO questions**

**Question 28 (20 marks)**

a. Explain the concept of price elasticity of demand and discuss four determinants of the price elasticity of demand for a product. (10 marks)

b. Use a demand/supply model to explain the effects of a tax on a market. Explain how price elasticity will affect both the incidence of the tax and the amount of revenue raised. (10 marks)

|  |  |
| --- | --- |
| a. Define price elasticity of demandExplain (not list) **four** determinants (2 marks each)i. Availability of substitutes – as substitutes increase E increasesii. Necessity versus luxury – luxuries are more elasticiii. Time to adjust – as time increases E increasesiv. Proportion of budget – bigger proportion, D is more elastic | 1-2 marks1-2 marks1-2 marks1-2 marks1-2 marks |
| b. 4 marks - correctly labelled diagram showing shift of S curve, effect on price & qty, tax revenue (and maybe DWL)A tax will cause a decrease in supply – price paid by consumers will rise (p2), price received by sellers will fall (p3), qty will fall (q2)Government tax revenue is determined by elasticity: if D is relatively inelastic, then tax revenue will be highTax incidence (who actually pays the tax) is determined by elasticity. If D is relatively inelastic, then tax incidence will fall on the consumer: incidence on buyer is p1p2 while on seller is p1p3  | 1-4 marks1-2 marks1-2 marks 1-2 marks  |

****

**Question 29 (20 marks)**

a. Explain why a competitive market is considered to be ‘efficient’. (10 marks)

b. Define market failure and discuss three different types of market failure. (10 marks)

|  |  |
| --- | --- |
| a. A competitive market produces where D = S. The D curve reflects marginal benefits (MB) while the supply curve reflects marginal costs (MC). When D = S, MB = MC and net benefits (total surplus) are maximized – this is the meaning of efficiency.Total surplus = consumer surplus + producer surplusDiagram to show total surplus at equilibriumShow that total surplus is decreased if quantity is either less or greater than the equilibrium quantity | 1-4 marks1-4 marks1-2 marks  |
| b. Define market failure – when total surplus is not maximized. Market failure results in a deadweight loss (DWL)Any **three** types (3 marks each)i. Market power – define monopoly, give example, discuss how monopoly restricts output & increases price compared to a competitive market; reward diagram ii. externalities – either negative or positive, provide example, negative results in overproduction; positive results in underproduction; reward diagramiii. public goods – nonrival & nonexcludable (explain what this means) e.g. examples: national defence, national park; undersupplied because of free rider problemiv. common resources – rival & nonexcludable e.g. fish in the ocean, endangered species, congested roads; overconsumed because of the tragedy of the commons | 1 mark1-3 marks1-3 marks1-3 marks1-3 marks |

**Question 30 (20 marks)**

a. Describe the four main components of aggregate expenditure. (8 marks)

b. Explain the main factors that affect each of these components. (12 marks)

|  |  |
| --- | --- |
| 2 marks for each typeConsumption – spending by households on goods (durable/nondurable) & services; largest component around 55%; relatively stableInvestment – around 20-25%; most volatile, includes spending by firms on machinery, construction, residential investment (new housing) & inventoriesGovernment – around 20-25%, spending by govt on goods & services, infrastructureNet exports - X-M – exports of gods & services less imports; can be positive if X> M or negative if M>X; +/-2%  | 1-2 marks1-2 marks1-2 marks1-2 marks |
| 3 marks for each componentConsumption – main factor is disposable income (7 wealth), C is related positively to income & wealth, C is related negatively to interest ratesInvestment – main factors are interest rates & profit expectations, i/rs represent the cost of borrowing so a rise in i/rs will discourage borrowing, business expectations also play an important roleGovernment – govt spending on goods & services and govt spending on investment (infrastructure); G is affected by the business cycle & govt priorities for various programs e.g. education, health, defenceNet exports – exports are dependent on other countries demand while import spending is determined by domestic factors; changes in the exchange rate & terms of trade will affect net exports | 1-3 marks1-3 marks1-3 marks1-3 marks |

**Question 31 (20 marks)**

a. Outline the five main economic objectives of the Australian government. (10 marks)

b. Explain the impact of the end of the mining boom on Australia’s macroeconomic performance. Refer to the circular flow model to support your answer. (10 marks)

|  |  |
| --- | --- |
| a. 2 marks for each objectivei. Sustainable econ growth – achieving growth rate in real GDP of around 3-3.5%; not too fast to create inflationary pressures but enough to absorb growing labour force ii. Low unemployment (full employment) – achieving an U rate of around 5% (the natural rate); keeping cyclical U close to zero by avoiding recessionsiii. Low inflation (price stability – keeping the inflation rate between 2-3% on average over the business cycle; this helps to preserve tha value of money over timeiv. Equitable distribution of income – redistributing income to improve economic welfarev. Efficient allocation of resources – allowing resources to flow where they are most highly valued; minimizing distortions in the economy; promoting competition in markets | 1-2 marks1-2 marks1-2 marks1-2 marks 1-2 marks |
| b. 6 marks - 2 marks each if three effects explained i. Decline in economic growth – growth rate of real GDP falls which reduces national incomeii. Decline in investment in the mining sectoriii. Slowing economy will cause an increase in unemployment – employment in mining & related industries would contractiv. Inflation rate would fall because of the decline in economic activity – esp. demand inflationRelate to the circular flow model – the decrease in investment (& exports) would lead to a decrease in injections into the flow which would reduce the flow of income having a contractionary effect on the level of economic activity. | 1-2 marks1-2 marks1-2 marks1-4 marks |