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Semester 2 examination, 2021

**ATAR**

**ECONOMICS**

**Year 11**

**MARKING KEY**

**(ADAPTED)**

**Section 1: Multiple-choice 24% (24 Marks)**

1. Which of the following news headlines would be more closely related to what macroeconomists study than what microeconomists study
2. Apple prices rise due to a late frost in Western Australia.
3. The United Auto Workers sign a contract raising wages over the next 3 years.
4. Airlines raise ticket prices in response to rising fuel costs.
5. Real GDP grows by 2.3% in the second quarter.
6. The Australian economy will experience a rise in economic activity when
7. saving and taxation are less than investment and government spending.
8. net domestic consumption is greater than factor payments to households.
9. investment and government spending exceed domestic consumption.
10. savings and investment are less than net exports.
11. Which of the following statements about Aggregate Expenditure is correct?
12. Government expenditure accounts for approximately 50% of GDP
13. Consumption spending is the largest component of aggregate expenditure
14. Investment is a stable component at 15% of GDP.
15. Net exports is the most volatile component of Aggregate Expenditure
16. What would represent an increase in leakages from the circular flow of income?
17. an increase in government spending on anti-smoking campaigns
18. an increase in spending on imports of luxury cars
19. an increase in spending on transfer payments
20. an increase in wages paid to government employees
21. If a nation’s nominal value of GDP rises from $400 bill to $600 bill over a 10 year period and prices have risen by 25 per cent over the period, real GDP has risen by
22. $25 bill.
23. $200 bill.
24. $100 bill.
25. $50 bill.
26. In the long-term, a benefit of economic growth is that it leads to
27. the adoption of contractionary monetary policy
28. a reduction in world resources.
29. structural change
30. higher living standards for the community.
31. Which one of the following isnot a demand side factor influencing economic growth?
32. The level of consumer confidence.
33. The productivity of the labour force.
34. The influence of interest rates on consumption expenditure.
35. The influence of personal income tax on consumption expenditure.
36. Real GDP per capita is a poor measure of economic welfare because it is not adjusted for:
37. the nominal value of production output.
38. changes in the size of the population.
39. production that can cause negative externalities.
40. the effects of inflation.
41. A hypothetical economy has the following labour force data:

Total population: 20 000 000

Working age population: 15 000 000

Labour force: 12 000 000

Employed: 10 000 000

What is the labour force participation rate for this economy?

1. 75%
2. 83%
3. 80%
4. 50%
5. Mike has just graduated from college and is now looking for a job, but has not yet found one. This causes the unemployment rate to \_\_\_\_\_\_\_\_ and the labour-force participation rate to \_\_\_\_\_\_\_\_.
6. increase; decrease
7. stay the same; stay the same
8. increase; increase
9. increase; stay the same
10. Which of the following is not removed in the calculation of the underlying rate of inflation?
11. price rises that are overstated due to improvements in the quality of goods.
12. volatile price movements caused by climatic conditions.
13. seasonal factors affecting prices.
14. government policy decisions.

Use the following data on Australia’s Consumer Price Index to answer question 12.

|  |  |
| --- | --- |
| **Year** | **CPI** |
| June 2019 | 114.8 |
| June 2020 | 114.4 |
| June 2021 | 118.8 |

1. Which of the following statements are correct?

I. The annual inflation rate to June 2021 was 3.8%.

II. Australia experienced deflation of -0.4% in the year ending June 2020.

1. Australia experienced a 4.0% increase in the general level of prices from June 2019 to June 2021.
2. Strong economic growth was likely in all three years in the table.
3. I only
4. I and II
5. I, II, and III
6. I, II, III, and IV
7. The Australian Government would have succeeded in meeting its main macroeconomic objectives if
8. Economic growth was 3.5%, unemployment was 4.5% and inflation was 2.5%.
9. Economic growth was 5.0%, unemployment was 0% and inflation was 2.0%.
10. Economic growth was 2.0%, unemployment was 2.0% and inflation was 2.0%.
11. Economic growth was 3.0%, unemployment was 3.0% and inflation was 5.0%.
12. The largest category of Commonwealth government spending is
13. Social welfare.
14. Education.
15. Defence
16. Health
17. With regressive taxation, the burden of the tax is greater for
18. lower income earners, as they spend more on cheaper items
19. lower income earners, because the proportion of income paid in taxation is greater than it is for higher income earners
20. higher income earners, who pay a larger proportion of their income in tax
21. the companies that produce the item that is taxed
22. Which of the following statements reflects vertical equity?
23. People earning higher incomes should pay a higher rate of tax.
24. People who earn the same income should pay the same rate of tax.
25. Everyone has the right to a similar level of education and health care.
26. The majority of transfer payments are made to the highest income earners.
27. If a country’s Gini coefficient rises from 0.43 to 0.52 then the economy’s distribution of income has become:
28. equal
29. more unequal
30. less unequal
31. a situation of inequality in place of equality
32. Which statement about the meaning of government economic policy objectives is correct?
33. Economic growth means that a country’s real output must rise over time.
34. Full employment means that no one must be unemployed.
35. Price stability means that the price of all goods and services must remain unchanged.
36. Redistribution of income means that everyone must have equal incomes.
37. Which of the following is not a role of the government in a modified market economy?
38. The regulation of business enterprises
39. Stabilising the business cycle
40. Stabilising the balance of payments
41. Redistributing income through taxation and spending

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**End of Section One**

**Section Two: Data interpretation/Short answer 36% (36 Marks)**

**Question 20 (12 marks)**

**Average – 7.6**

**Comments**

* Must read the questions carefully and respond accurately e.g. time periods for calcs (a) i & ii
* Part b) – must use data from the table to support your points;
* Part b) - Underemployment changes to not account for the UE rate, as UnderN is part of employment.
* Part c) – some students:
  + discussed recession not recovery period (max ½ marks if theory was correct)
  + did not answer both parts of the question (max 1 mark)
  + defining/describing cyclical UE as ‘linked to the business cycle or varies with the BC’. This is not enough. Describe requires students to build on this point by explaining why the BC effects employment i.e. changes in (AD) – ½ marks only
* Part d)
  + for 2 marks, students need to provide a detailed description of the effect.
  + Use of examples helps provide depth e.g. types of taxes, types of welfare payments
  + Always consider indirect welfare that may affect the unemployed e.g. healthcare payments, housing allowance etc

This question refers to the data below which shows the ABS monthly unemployment data from June to August 2021 for Australia.

|  |  |  |  |
| --- | --- | --- | --- |
|  | **June 2021** | **July 2021** | **August 2021** |
| **Employed people** | 13,154,200 | 13,168,900 | 13,022,600 |
| **Unemployed people** | 679,100 | 651,000 | 617,100 |
| **Underemployment rate (%)** | 7.9% | 8.3% | 9.3% |
| **Participation rate** | 66.2% | 66% | 65.2% |

1. Calculate the following (show working):
2. unemployment rate for July 2021 (1 mark)
3. underutilisation rate for June 2021 (1 mark)

**June 2021 UE rate – ½ mark**

**UE + Under N – Underutilisation rate – ½ mark**

**4.6% + 7.9% = 12.8%**

1. ‘In August 2021 the unemployment rate fell to 4.5%’. Identify **two** changes in the data that could account for this change in the unemployment rate. (2 marks)

|  |  |
| --- | --- |
| **Description** | **Mark** |
| **Any two of the following – 1 mark each**   * No of unemployed fell from 651,000 to 617,100 (🡪 fall in LF and UE rate) * No of employed fell from 131,168,900 to 13,022,600 (🡪 fall in LF) * Participation rate fell from 66% to 65.2% * Size of labour force fell from 13,819,900 to 13,639,700 * No of unemployed fell by more than LF fell (5.2% fall in UE, 1.3% fall in LF)   *Do not accept underemployment rate falling, underN is part of no employed* |  |
| **TOTAL** | 2 |

1. Describe **two** types of unemployment and explain how they are likely to be affected as Australia enters a recovery period following the Covid recession of 2020. (4 marks)

|  |  |
| --- | --- |
| **Description** | **Mark** |
| **Any two of the following – 2 marks each** |  |
| **Frictional Unemployment**  **Describe** – People who are temporarily unemployed because they are in transition from one job to another , ‘search’ unemployment, 1 – 2% of total UE  **How it will be effected in a recovery period** – Will start to rise as people become more confident in the labour market | 1  1 |
| **Cyclical Unemployment**  **Describe** - unemployment that results when the overall demand for goods and services in an economy cannot support full employment, demand deficient unemployment; varies with the business cycle (up in a trough, down in a boom)  **How it will be effected in a recovery period** – Will start to fall as Aggregate demand increases, leading to increased demand for resources to produce goods and services, thus increased demand for labour (a derived demand) | 1  1 |
| **Structural Unemployment**  **Describe –** mismatch of jobs available and required skills in a geographical or occupational sector of the economy; approx. 3 – 4% of total UE  **How it will be effected in a recovery period – two explanations acceptable**   * should begin to decline, as businesses are less focused on cost cutting (capital for labour substitution) * Should begin to rise, as investment picks up leading to labour for capital susbsitution | 1  1 |
| **Seasonal unemployment accepted, depending on explanation** | 2 |
| **TOTAL** | 4 |

1. Describe **one** economic effect of a high rate of unemployment on the following sectors of the Australian economy. (4 marks)

Government

|  |  |
| --- | --- |
| **Description** | **Mark** |
| **Any one of the following – 2 marks**   * **Increased government spending** **on welfare** such as unemployment benefits and other income–related state welfare payments. For example: Newstart Allowance, housing allowance, health benefits etc * **Opportunity cost of this money spent on welfare** could have been spent on improving infrastructure, health etc. * **Fall in revenue** : as more people unemployed this leads to a fall in income tax revenue and a decline in indirect taxes such as GST revenue. Will also lead to a fall in company tax, as slowing economy means lower profits * **Policy response** : increased deficit, expansionary stance to combat high UE * **Budget deficit rises:** automatic stabilisers of increased welfare and decreased tax |  |
| **TOTAL** | 2 |

Firms

|  |  |
| --- | --- |
| **Description** | **Mark** |
| **Any one of the following – 2 marks**   * **Implies a slow growth economy** thus a fall in demand for goods and services, so declining profits * **Bigger pool or surplus of labour** to choose from (more capacity in labour markets) thus less pressure to pay higher wages and more availability of skills required, less training needed * **Less risk of industrial / strike action** – fear of job losses – leading to reduced trade union power, less disruption to business, increased productivity * **Less pressure on wage growth** – As S of labour > demand for labour, businesses will not feel pressure to increase wages to current employees * **Loss of skills in the economy** – may have longer term effects on businesses as productivity will decline |  |
| **TOTAL** | 2 |

**Section Three: Extended answer 40% (40 Marks)**

**Question 22** **(20 marks)**

*Australia's economy has bounced back from the COVID recession, growing by a much-better-than-expected GDP growth rate of 1.1 % in the 12 months to March 2021.*

1. Discuss the concept and measurement of economic growth. (4 marks)

**Comments**

* Must label the questions carefully (a,b,c)
* Poor ability to break the question into it’s 2 parts (concept and ,measurement)
* Very few mentioned growth can be actual or potential
* Poor definition of GDP – stating volume instead of value
* Rewarded ‘other measures’ with ½ mark

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| **Description** | **Marks** |
| **Concept**   * Define: The increasing capacity of an economy to satisfy the needs and wants of its members. * Demand side growth (actual EG caused by rising AD), S side growth (increase in potential of the economy, quality and/or quantity of resources increase) | **2** |
| **Measurement**   * GDP (total market value of all goods and services produced over a period of time) * EG rate = rate of change in GDP (nominal), real GDP (adjusted for inflation) | **2** |
| **TOTAL** | **4** |

1. Discuss how an economy can increase its potential economic growth rate through supply side sources of growth. (8 marks)

**Comments**

* Very poor at key definition: Supply side increasing potential growth
* Better answers used a PPF or APF
* Some clear confusion around ‘quality vs quantity’.
* Each point must be explained with an example. The example is not the explanation
* Poor answers were simply stating that businesses should ‘produce more’, without any discussion about how to achieve this.

|  |  |
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| **Description** | **Marks** |
| **DEFINE** – supply side growth, increase in potential of the economy. *May be supported with PPF model* | **1-2** |
| ***1 mark per point****. Each point must be explained with an example. Example is not the explanation.* |  |
| * Increased **QUANTITY** of resources – at least two points must be discussed * land (exploration 🡪 new resources), * labour (migration, natural increase in population), * capital (investment 🡪 capital accumulation or capital deepening) * enterprise (lowering taxes and subsidies and grants to incentivise entrepreneurs) | **3** |
| * Increased **QUALITY** of resources : at least two points must be discussed * labour (increases in human capital through training and education), * land (research and innovation, technological progress), * capital (technological progress and research & development), * enterprise (management training) * Increases in productivity – more output same input; labour and capital productivity * APF model | **3** |
| **TOTAL** | **8** |

1. Discuss **two** benefits and **two** costs of economic growth (8 marks)

**Comments**

* This question was done well
* Issue being many students did not explain HOW growth causes the benefit or cost. They simply stated the benefit or cost. For example:
* The cost of inflation. Students needed to relate growth to both demand pull and cost push inflation.
* The benefit of increased employment, must state that due to increasing output, firms require more labour.

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| **Description** | **Marks** |
| *For full marks students must fully explain how economic growth causes the benefit or cost.* |  |
| **Benefits**  Any two of the following – 2 marks each   * Increases material welfare 🡪 increases real income 🡪 incr G and S * Consumption of more goods and services (increases in quality and quantity) * Increasing levels of real income * Increases income and wealth * Increased trade * Improved living standards * Falling inflation (if growth comes from increases in productivity) * Increased employment * Increased government revenue | **4** |
| **Costs**  Any two of the following – 2 marks each   * Working hours * Structural UE * Consumerism * Uneven distribution of income * Environmental degradation * Inflation – demand pull + cost push if economy reaches fullN | 4 |
| **TOTAL** | **8** |

**Question 23**

* 1. Describe the concepts of income and wealth and outline **two** factors that determine a person’s income.

(8 marks)

**Comments**

* Too many students referred to income as ‘money earned from a job’. This is not close to required level. It is money earnt from supply of all resources to firms to produce. (See key). Students also tended to not incorporate wider definitions of income including disposable income and the addition of welfare and other benefits.
* Wealth definitions also lacking in ‘academic rigor’
* Wealth is a net concept = Assets – liabilities
* Examples too narrow – more than just a house and includes superannuation, shares, bonds, cash in interest bearing deposits, furniture
* Taxation does not determine a person’s income level. That impacts income after it has been earned

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| **Description** | **Marks** |
| **Income**   * Define - Income is a flow concept in economics as it represents the earnings from people contributing land, labour, capital and entrepreneurial resources to production or output. * Income sources include wages and salaries, rents, dividends, cash benefits, interest payments, welfare, other indirect benefits * Largest source of income is wages/salaries (55%) then profits (19%) * Final income = Private income + direct benefits – tax + indirect benefits | **1**  **2** |
| **Wealth**   * Define - Wealth is a stock concept in economics because it refers to a person’s or household’s net assets at a particular point in time. * Assets may include savings; financial investments; business profits; and inheritance. * Main source of wealth is property (57%) * The value of net worth or net assets is calculated by adding the total value of real or non financial assets to the total value of financial assets, and then subtracting total financial liabilities or debts | **1**  **2** |
| **Factors that determine a person’s income**  Any two of the following – 1 mark each:   * Personality - Hard working v lazy, Risk taker v risk adverse, knowledge and skills * Education and skills – qualifications, level of education and training * Occupational conditions - Ability to work overtime, Degree of danger involved - receive higher levels of income, Geographic location * Opportunity - Socio economic background, Private school v public school, Networks * Disability – unable to earn an income, reliant on welfare * Age – youth without skills earn less income * Redundancy – not working, not earning an income * Sickness – may reduce ability to work | **2** |
| **TOTAL** | **8** |

* 1. Explain, using suitable examples, how the Commonwealth Government uses taxation and expenditure to achieve a more equitable distribution of income in Australia. Demonstrate using a Lorenz Curve, the intended effect of the Government policy. (12 marks)

**Comments**

* More equitable distribution of income is underlined. It is one of the governments key goals. Some discussion of what this actually means is required
* Progressive taxation does not mean ‘the more you earn the more pay’ It means a greater proportion is taken the more you earn. Leads to discussion of vertical equity
* Income tax is not the only tax from which income is distributed. Students tended to be too narrow in their focus.
* Government expenditure – transfer payments, welfare benefits as well as funds allocated to health and education
* ‘Demonstrating using a Lorenz curve means that you must demonstrate on the diagram the curve moving closer to the line of equality to earn 2 marks

|  |  |
| --- | --- |
| **Description** | **Marks** |
| **More Equitable distribution of income** – **The goal**   * Removing socially unacceptable income disparities (inequalities). * Measured using the Gini Coefficient * The Government has a social resonsibility to redistribute this income to alleviate poverty * Provide every citizen with a socially acceptable standard of living * Remove possibility of social unrest   **Taxation**   * Progressive tax – takes a greater proportion of a high income earners income than a low income earners income * Vertical and horizontal equity   Examples:   * Personal income tax (direct tax) is progressive: as income rises, the marginal rate of tax also rises. Largest component of taxation system. * Capital gains tax – progressive tax on profits from sale of assets (shares, investment properties) * Fringe Benefit Tax   **Expenditure**   * Transfer payments such as pensions and welfare benefits provide direct income support (aged, unemployed, disabled, family allowance) * 40% of total Commonwealth budget allocated to welfare payments   Examples:   * Indirect Government payments such as subsidized education, housing and health enables all Australians to access vital services * Direct Government payments such as social security, job keeper, job seeker, family benefits   **Lorenz Curve**   * Lorenz curve measures the extent to which a society diverges from absolute income equality (diagonal line) – 1 mark * Impact of Government taxation and payments would be a Lorenz curve closer to the diagonal line - 1 mark * Correctly labelled and drawn Lorenz Curve. Must show shift in the Lorenz curve closer to the line of equality on the diagram to achieve 2 marks– 2 marks | **2**  **3**  **3**  **4** |
| **TOTAL** | **12** |