

Semester 2 examination, 2022

**ATAR**

**ECONOMICS**

**Year 11**

**MARKING KEY**

**(ADAPTED)**

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

This section has **24** questions. Answer **all** questions on the separate Multiple-choice answer

sheet provided.

Suggested working time: 30 minutes

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

1. Macroeconomics deals with
2. the activities of individual firms.
3. the behaviour of firms.
4. the behaviour of consumers.
5. economic aggregates.
6. The largest and least volatile component of Aggregate Expenditure is
7. consumption expenditure.
8. investment expenditure.
9. government expenditure.
10. net exports.
11. Government spending on the construction of a new public hospital is an example of
12. government social security outlays.
13. government current expenditure.
14. government capital expenditure.
15. government transfer payments.
16. In a closed economy, if C = $400m, G = $60m, T = $40m, S = $110m and I = $100m, then it is likely that
17. income earned in the next period will fall
18. income earned in the next period will rise
19. interest rates will rise since consumption is less than income
20. the government budget will be in surplus
21. A leading indicator of changes in the level of domestic economic activity is
22. Building approvals
23. Unemployment levels
24. Retail sales
25. Savings bank deposits

Questions 6 and 7 refer to the following data.

|  |  |  |
| --- | --- | --- |
| **Year** | **Nominal GDP ($b)** | **CPI** |
| 1 | 500 | 110 |
| 2 | 510 | 115 |
| 3 | 520 | 119 |

1. The rate of inflation in year 3 is
2. 3.9%
3. 5 %
4. 8.7%
5. 3.5%
6. Real GDP in year 2 is closest to
7. $487 b
8. $500 b
9. $502 b
10. $510 b
11. The Consumer Price Index measures
12. quarterly changes in the prices of a weighted sample of goods and services bought by households.
13. weekly changes in the price of all goods and services sold in the economy.
14. changes in the real value of goods and services consumed by households.
15. monthly changes in the price of consumer goods and services bought by all Australian households.
16. The table contains nominal data on the components of Gross Domestic Product (GDP) for a hypothetical economy.



Assume that the consumer price index for this economy increases from 100 in Year 1 to 110 in Year 2. What is the growth rate of real GDP in Year 2?

1. 1%
2. 0%
3. 10%
4. 4%
5. A large coal mine is forced to close because of falling demand for coal as consumers switch to less polluting fuels. The government organises retraining courses for the coal mine workers. Which type of unemployment is the government trying to reduce?
6. technological
7. cyclical
8. frictional
9. structural

Question 11 refers to the data in the table below.

|  |  |  |
| --- | --- | --- |
|  | **Year 1** | **Year 2** |
| Part time employed persons | 200,000 | 210,000 |
| Full time employed persons | 600,000 | 640,000 |
| Unemployed persons | 100,000 | 110,000 |
| Working age population | 1,500,000 | 1,570,000 |

1. Based on the data in the table, what is the change in the labour force between Year 1 and Year 2?
2. 40 000
3. 50 000
4. 60 000
5. 70 000
6. Which of the following pairs of indicators is **most** likely to occur in an economic downturn or recession?
7. A fall in concrete production and falling interest rates
8. A decrease in the number of cranes visible on city skylines and a rise in employment in service industries
9. A rise in business stock levels and a rise in planned business investment
10. A decrease in government spending on welfare and social security and an increase in production of consumption of durable goods



1. The diagram opposite shows an economy growing over time – shifting from point S to point T. This is most likely to represent
2. higher real national income.
3. greater income equality.
4. lower inflation.
5. lower unemployment.
6. A redistribution of income away from the poorest 10 per cent of society towards the richest 10 per cent of society will move the Lorenz Curve
7. closer to the 45 degree line and increase the Gini Coefficient.
8. closer to the 45 degree line and decrease the Gini Coefficient.
9. further from the 45 degree line and increase the Gini Coefficient.
10. further from the 45 degree line and decrease the Gini Coefficient.
11. Study the data relating to suggested tax systems that could be implemented in Australia.

|  |  |  |  |
| --- | --- | --- | --- |
| **Annual income** | **Tax system 1** | **Tax system 2** | **Tax system 3** |
| 10 000 | 1000 | 1200 | 2000 |
| 20 000 | 1000 | 2000 | 3000 |

Based on the data shown above, which one of the following statements is **correct**?

1. All of the tax systems are regressive
2. Tax systems 2 and 3 are progressive
3. Tax system 1 is a proportional tax
4. Tax system 3 is the only regressive tax system
5. Which statement applies to progressive taxes, but does **not** apply to proportional or regressive taxes? As income falls
6. a smaller percentage of income is taken in tax.
7. a larger percentage of income is taken in tax.
8. less income is taken in tax.
9. the same percentage of income is taken in tax.

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

This section contains **three** questions. Answer **all** questions. Write your answers in the spaces provided.

Supplementary pages for planning/continuing your answers to questions are provided at the end of this Question/Answer booklet. If you use these pages to continue an answer, indicate at the original answer where the answer is continued, i.e. give the page number.

Suggested working time: 70 minutes

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

**Question 17 (12 marks)**

**Inflation moves higher again**

The rebound in Australia’s inflation rate has continued at an elevated pace from the brief period of deflation recorded in mid-2020. In annual terms, Australia’s headline inflation rate was 6.1% as at June 2022, the highest annual rate recorded since December 1990.

The chart highlights that the underlying rate of inflation steadily declined between 2008 and 2020. It has, however, recently increased sharply and was 4.6% as at June 2022. This underlying rate of inflation is now well above the Reserve Bank’s target range.

The recent increase in inflation evident in Australia is consistent with the trend more globally as economies experience the impact of higher energy prices and supply chain disruptions. Additionally, the impact of highly stimulatory monetary & fiscal policy put in place to manage the COVID crisis has been associated with increased spending and firming labour markets to produce upward pressure on inflation.

1. State the Reserve Bank’s target inflation range? (1 mark)

**2 to 3% inflation rate**

1. State Australia’s underlying inflation rate as at June 2022 (1 mark)

**4.6%**

1. Describe why the underlying rate of inflation was below the headline rate of inflation from June 2021 to June 2022. (2 marks)

|  |  |
| --- | --- |
| **Description** | **Mark** |
| **Explanation**  |  |
| Outline the difference between underlying and headline rate of inflation | 1 |
| Provides a valid reason for why underlying is below headline rate of inflation  | 1 |
| **Answers may include*** **Headline rate of inflation :** broad measure that includes average price movements of all goods and services in the CPI
* **Underlying rate of inflation:** removes large price movements (e.g. trimmed mean and weighted median)
* **Reason for underlying being below headline:** large price rises have been taken out 🡪 underlying below headline rate. e.g. oil prices, fruit and veg prices
 |
| **TOTAL** | **2** |

1. Using examples from the article, explain the **two** types of inflation contributing to Australia’s current annual inflation rate result (4 marks)

|  |  |
| --- | --- |
| **Description** | **Mark** |
| **For each type of inflation – 2 x 2 marks** |  |
| Describes the type of inflation | 1 |
| Uses examples from the article | 1 |
| **Subtotal (x2)**  | **2** |
| **Answers may include****Demand pull inflation*** Demand pull inflation occurs when the level of aggregate demand in the economy is greater than aggregate supply. " Too much money chasing too few goods."
* *Article :* *the impact of highly stimulatory monetary & fiscal policy put in place to manage the COVID crisis has been associated with increased spending and firming labour markets to produce upward pressure on inflation.*
* Model: AD/AS may be included - + 1 mark

**Cost push inflation*** Cost-push inflation is determined by supply side factors. This occurs when prices rise due to higher costs of production and higher costs of raw materials. E.g. Rising oil prices, higher prices of imports,natural disasters, supply chain issues, war in Ukraine
* *Article: the impact of higher energy prices and supply chain disruptions.*
* *Model: AD/AS model may be included - + 1 mark*
 |
| **TOTAL** | **4** |

1. During 2022, Australia recorded its highest inflation rate since 2001. Outline **four** effects of a high rate of inflation. (4 marks)

|  |  |
| --- | --- |
| **Description** | **Mark** |
| **For each effect – 4 x 1 mark**  |  |
| Correctly identifies an effect | 1 |
| **Subtotal (x 4)** | **1** |
| **Answers may include:** * High inflation increases cost of living & decreases purchasing power
* High inflation decreases real income
* High inflation results in high nominal interest rates which will decrease investment.
* High inflation can increase income inequality.
* High inflation can reduce a country’s international competitiveness which will reduce net exports
* High inflation negatively effects fixed income earners who have less market power i.e. less influence when it comes to negotiating wage and salary increases. As inflation rises, their purchasing power (real income) declines. Real income and standard of living decline
* High inflation positively effects borrowers**.** Borrowers who have borrowed at a fixed rate of interest will find that the value of the money they are paying back decreases over time, may also be able to use the borrowed funds to purchase assets that rise in value as inflation rises
* Any other valid effect
 |
| **TOTAL** | **4** |

***See next page***

**Question 18 (12 marks)**

Use the data in the table below which refers to Australia’s income and wealth distribution by quintile in 2019-20.

**Share of Australia’s wealth and income 2019-20**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Household** **Wealth** | **Cum. % Wealth** | **Household** **Disposable Income** | **Cum % Income** |
| **Quintile** |  |  |  |  |
| **Lowest** | 0.7% | 0.7 | 7.4% | 7.4 |
| **Second** | 4.8% | 5.5 | 12.6% | 20 |
| **Third** | 11.3% | 16.8 | 17.2% | 37.2 |
| **Fourth** | 20.5% | 37.3 | 23.0% | 60.2 |
| **Highest** | 62.8% | 100 | 39.8% | 100 |
|  |  |  |  |  |
| **Gini Co-efficient** | **0.611** |  | **0.324** |  |

1. State the following (1 mark)
2. Percentage of wealth of the highest 40% of households **83.3%**
3. Percentage of income of the lowest 40% of households **20%**
4. Outline the difference between income and wealth (2 marks)

|  |  |
| --- | --- |
| **Description** | **Mark** |
| **Income and wealth** |  |
| Defines income | 1 |
| Defines wealth | 1 |
| **Answers may include:** * **Income :** is the amount of money earned from supplying the factors of production plus welfare and other benefits. E.g wages or interest
* **Wealth :** refers to the current value of the assets a household has accumulated over time through savings; financial investments; business profits; and inheritance. The difference between a household’s assets and liabilities
 |
| **TOTAL** | **2** |

1. On the grid below, construct a Lorenz Curve for income and for wealth distribution in Australia (3 marks)

**Cumulative % calculated correctly (1 mark)**

**Wealth and income curves plotted correctly (1 mark for each curve)**

1. Describe and account for the large discrepancy between the income and wealth Gini coefficients for Australia (3 marks)

|  |  |
| --- | --- |
| **Description** | **Mark** |
| Income and wealth |
| Describes the data | 2 |
| Provides a reason why there is a large discrepancy | 1 |
| **Answers may include:** **Describe – 2 marks (must quote data)*** Wealth is less equitable than income
* Wealth Gini coefficient is 0.611, income gini coefficient is 0.324

**Account for – 1 mark**Any of the following:* Australia has progressive income tax which makes income more equitable (highest quintiles has 62.8% wealth and only 39.8% income)
* Australian government provides welfare payments for low income earners (lowest quintile has 7.4% income and only 0.7% wealth)
* Australia has few wealth taxes
 |
| **TOTAL** | **3** |

1. *‘Many Economists believe Australia should lift the GST from 10% to 12.5% to give the government a larger tax base’.* Explain how this would affect the income Gini coefficient ? (3 marks)

|  |  |
| --- | --- |
| **Description** | **Mark** |
| **Explains how GST rise effects Gini coefficient** |
| Identifies that GST is a regressive tax | 1 |
| Explains the effect of a regressive tax on high and low income earners | 1 |
| Explains that the Gini coefficient would rise | 1 |
| **Answers must include:** * GST is a regressive tax
* Regressive tax takes a larger % from lower income earners than higher income earners
* Gini coefficient will rise (increase) as income will be less equitable
 |
| **TOTAL** | **3** |

***End of Section Two***

***See next page***

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

**Question 19 (20 marks)**

*‘Australia’s GDP grew strongly in the March quarter, 2022 with the annual rate of growth at 3.2%. Underpinning this growth has been a rise in consumption spending and a pick up in investment spending. However, Australia is still performing under its potential (or target) economic growth rate of 3.5%’*

1. Explain how each of the following may increase Australia’s potential economic growth rate. *Use examples to support your response.* (8 marks)
	1. adoption of new technology
	2. increases in immigration to Australia
	3. discovery of new minerals
	4. increased funding for education and training

|  |  |
| --- | --- |
| **Description** | **Marks** |
| **For each factor – 4 factors x 2 marks each**  |  |
| Explanation of link between factor and supply side growth | 1.5 |
| Use of examples | 0.5 |
| **Subtotal (x4)** | **2** |
| **Answers may include**

|  |  |  |
| --- | --- | --- |
| **Factor** | **Brief explanation** | **Examples** |
| 1. adoption of new technology
 | Adoption of new technology will lead to an increase in capital productivity. Improves the quality of resources which means more output can be produced for the same input. | NBNIT |
| 1. Increases in immigration to Australia
 | This will increase the quantity of labour. More labour means there is the potential to produce more goods and services | Skilled migrationVisa 452Overseas workers for agriculture industry |
| 1. Discovery of new minerals
 | This will increase the quantity of land resources. More land means there is the potential to produce more goods and services | LithiumCopper |
| 1. Increased funding for education and training
 | This will increase human capital as labour productivity will increase. More output from the same unit of labour | Year 12 completionTAFE fundingApprenticeships |

 |
| **Total** | **8** |

**Question 20 (20 marks)**

1. Illustrate the business cycle and describe **five** characteristics of a trough phase of the business cycle (8 marks)

|  |  |
| --- | --- |
| **Description** | **Mark** |
| **Model** |  |
| All 4 phases labelled correctly | 1 |
| Axes labelled correctly | 1 |
| Potential GDP (or trend line) drawn and labelled | 1 |
| **Sub-total** | **3** |
| **For each characteristic– 5 x 1 mark** |  |
| States a characteristic | 0.5 |
| Explains the characteristic in the context of a trough | 0.5 |
| **Sub-total (x5)** | **1** |
| **Answers may include****Model****Characteristics of a trough – any 5 of the following:*** **Significant excess capacity** – as spending is less than output (leakages > injections)
* **Consumption spending at lowest point**: as consumers have job uncertainty and a pessimistic outlook (spending on durable goods decreases, spending on services decreases, decrease in import spending)
* **Retail sales are down** – current expenditure falls due to uncertainty, postpone until a later date, prefer to save not spend
* **Private debt decreases** – falling housing equity decreases incentive to borrow, debt falls
* **Consumer confidence levels low** – pessimistic due to job insecurity, falling wealth
* **Savings ratio rises** –people put off consumption decisions due to job insecurity and economic uncertainty
* **Investment spending at low levels** : Fall in spending on construction, machinery, engineering as firms not expanding as risk is higher
* **Business confidence is low** – pessimistic as businesses uncertain about future sales and profitability
* **Government budget moves into deficit** – as more people UE 🡪 rise in welfare (G) and fall in T
* **Tax revenue falls** – decreased tax revenue (income tax,company tax, GST) as spending falls
* **Higher levels of UE** : as fall in aggregate demand and businesses respond with falling production levels therefore decrease demand for labour (cyclical UE rises, frictional UE falls, structural UE little change)
* **Inflation falls** to less than 2% (below target) as little demand pressure on final markets and no cost pressure as lots of spare production capacity in the economy and no cost pressure
* Any other valid characteristic
 |
| **TOTAL** | **8** |

1. Discuss how a trough effects the achievement of the government’s economic objectives of sustainable economic growth, price stability and a more equitable distribution of income.

(12 marks)

|  |  |
| --- | --- |
| **Description** | **Mark** |
| **For each economic objective – 3 objectives x 4 marks each** |  |
| Describes the economic objective *(definition + target)* | 2 |
| Explains why the objective is not achievable in a trough | 2 |
| **Subtotal (x3)** | **4** |
| **Answers may include****Sustainable Economic Growth**

|  |  |
| --- | --- |
| Describes | * Define – EG is the increasing capacity of the economy to satisfy the material wants of its members. Sustainable EG is the achievement of a rate of economic growth that keeps the economy at full employment without causing inflationary pressures.
* Target for sustainable rate of growth in real GDP is around 3-3.5%.
* Sustainable growth occurs when the other two objectives can be achieved simultaneously
 |
| How a trough affects achievement of the objective | * Unable to be achieved because aggregate demand (spending) is low (C, I particularly) 🡪 fall in output and a contraction in economic growth
* Low EG leads to high UE and inflation below 2% which means sustainable EG is not achieved
 |

**Price Stability**

|  |  |
| --- | --- |
| Describes | * Define - Maintaining low inflation over the business cycle, achieving an inflation rate of between 2-3%.
* The target for price stability is 2-3%
* This helps to preserve the value of money and ensures that the cost of living does not increase too quickly.
 |
| How a trough affects achievement of the objective | * As AD is low in a trough so inflation will tend to be low (< 2%)
* Demand pull disinflation will occur as there is low levels of spending
* Cost push disinflation will also occur
 |

**Equitable distribution of income**

|  |  |
| --- | --- |
| Describes | * Define - to ensure all members of the economy achieve an acceptable minimum standard of living through equitable or fair distribution of income
* Measured by the Gini coefficient.
* No target but aim for Gini to be as low as possible
* By redistributing income from the ‘rich to the poor’ e.g. through progressive income tax, improves equity and enables a’fairer’ society.
 |
| How a trough affects achievement of the objective | * A trough will generally worsen the achievement of this objective.
* High unemployment will mean lower income earners have less income which will create more inequity
* Trough will have a disproportionate effect on the young and women who are more likely to be employed on a casual or part time basis and may lose their jobs in a downturn; and slowing wage growth.
* *Govt would increase welfare spending as higher levels of UE, this may support the achievement of increased equity (1 mark only)*
 |

 |
| **TOTAL** | **12** |

**Question 21 (20 marks)**

1. Draw a diagram showing the circular flow of income, identifying the different sectors and the associated leakages and injections. (6 marks)

|  |  |
| --- | --- |
| **Description** | **Marks** |
| **Model** |
| Model shows all 5 sectors (-1/2 for each incorrect or missing sector) | 2 |
| Model has correct direction of all flows (- ½ mark for each incorrect arrow) | 2 |
| Models shows correct labelling of flows – letters and/or labels, also identification of leakages and injections (-1/2 for each incorrect or missing ) | 2 |
| **Subtotal** | **6** |
| **Answers may include****Consumption Expenditure** |
| **Total** | **6** |

1. Explain the difference between the product and factor markets in the circular flow of income

(4 marks)

|  |  |
| --- | --- |
| **Description** | **Marks** |
| **For each market – 2 x 4 marks** |  |
| Outlines the product market -references the C F of Y model | 2 |
| Outlines the factor market -references the C F of Y model | 2 |
| **Subtotal (x2)** | **4** |
| **Answers may include****Product markets** * refer to **markets** for final **goods** **and services** (such as cars, clothes, travel etc). Firms are sellers of goods and services in the product market and HH are buyers of goods and services –0.5 mark
* C flow of Y - refers to the flows of goods and services (output) from firms to HH and the flow of spending (consumption spending) from HH to firms – 1.5 mark

**Factor markets** * refers to **markets** for **factors of production** or inputs in a production process (such as labour to deliver services, capital such as machinery). Households are sellers of resources in the factor market and firms are buyers of resources – 0.5 mark.
* C flow of income - refers to the flow of resources (land, labour, capital and enterprise) from HH to firms and the flow of income (income, rent, profit and interest) from firms to HH – 1.5 mark
 |
| **Total** | **4** |

1. Explain the concept of equilibrium and the changes that would occur to equilibrium if the level of leakages becomes greater than the level of injections. (10 marks)

|  |  |
| --- | --- |
| **Description** | **Marks** |
| **Explanation** |
| Explains the concept of equilibrium | 2 |
| Explains each of the 4 steps – 2 marks each | 8 |
| **Answers may include****Concept of equilibrium*** Equilibrium occurs when leakages = injections (S + T + M = I + G + X) – 1 mark
* Therefore, O = E = Y so no tendency to change – 1 mark

**Adjustment process*** DISEQUILIBRIUM – Leakages > injections. (S + T + M > I + G + X) *e.g. if savings increases, or tax rates rise or import spending increased.* Economy will contract.
* INVENTORY CHANGE – As output > expenditure this leads to rising inventories (or stock levels) as output being produced is greater than spending (or supply > demand)
* PRODUCTION CHANGE – Firms respond by decreasing production 🡪 decrease in output 🡪decrease demand for resources (labour, capital, land) 🡪 decreased Y. Therefore leakages fall (S + T + M)
* RETURN TO EQUILIBRIUM – process continues until equilibrium is achieved when total leakages equals total injections, where O = Y = E a lower income level. Economy has contracted.
 |
| **Total** | **10** |

**Question 22**

*‘From July 2020 to July 2022, Australia experienced a strong economic recovery. Over this period the unemployment rate fell from 7.4% to 3.6% and the participation rate increased from 64.7% to 66.6 %’*

1. Describe the unemployment rate and participation rate and explain why a decline in the unemployment rate would affect the participation rate. (5 marks)

|  |  |
| --- | --- |
| **Description** | **Marks** |
| ***For each rate – 2 x 2 marks*** |  |
| Defines UE and PR  | 1 |
| Includes formula  | 1 |
| **Subtotal (x2)** | **4** |
| **Answers may include****Unemployment rate*** Definition: 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.
* Formula : UE/LF; LF = UE + Employed

**Participation rate*** Definition: the no of people employed or unemployed as a % of the working age population. Employed means working 1 + hour per week in the reference period, UE means person does not have a job but is willing and able to work.
* Formula : LF / Working age population; Working age population = persons over the age of 15
 |
| **UE rate and PR – 1 mark** |
| Provides a valid explanation for why fall in UE rate leads to increase in PR | **1** |
| **Answers may include*** 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.
 |
| **Total** | **5** |

1. Using examples, describe each of the following types of unemployment and explain how each would be expected to change in a strong recovery period (9 marks)
2. Cyclical unemployment
3. Frictional unemployment
4. Structural unemployment

|  |  |
| --- | --- |
| **Description** | **Marks** |
| ***For each type of unemployment – 3 x 3 marks each*** |  |
| Provides an accurate definition and at least one other characteristic | 1 |
| Indicates the expected change in a strong recovery period | 1 |
| Provides a valid example | 1 |
| **Subtotal (x3)** | **9** |
| **Answers may include**

|  |  |  |  |
| --- | --- | --- | --- |
| **Type of UE** | **Description** | **Expected rate in a strong recovery** | **Examples** |
| **Cyclical UE** | * Definition - Unemployment that results when there is a fall in aggregate demand therefore less demand for labour
* It occurs during periods of slow economic growth or during periods of economic contraction (a downturn in economic activity)
* It is sometimes called Demand deficient unemployment.
* Involuntary
 | During the recovery period, cyclical UE would fall.In July 2022, when UE was 3.5%, cyclical UE would be 0%  | Retail workers being laid off during a trough, hospitality and leisure workers; Building and construction, retail, motor vehicle sales, hospitality, tourism are all affected by a downturn in spending in the economy. |
| **Frictional UE** | * Definition – UE due to people transitioning from one job to another.
* ‘Search unemployment’ (as finding a new job takes time and involves search costs)
* Voluntary
* Short term in duration
 | During the recovery period frictional UE would begin to riseIn July 2022 when the UE rate was 2.5%, Frictional UE would be at the top end of its band, at approx. 3%. | Students seeking their first job; seasonal workers; people re-entering the workforce after time off |
| **Structural UE** | * Definition – UE due to a mismatch between the skills employers want and the skills workers have.
* Major advances in technology, as well as finding lower costs of labor overseas, lead to this type of unemployment.
* Involuntary
 | During a recovery period, structural UE is unlikely to change.3 – 3.5%  | Closure of the car industry in Australia led to structural UE for car workers the rise of computers led to many jobs in manual bookkeeping being replaced by highly efficient software. |

 |
| **Total** | **9** |

1. Discuss **three** benefits of low unemployment to the economy. (6 marks)

|  |  |
| --- | --- |
| **Description** | **Marks** |
| ***For each benefit of low UE – 3 x 2 marks each*** |  |
| States a benefit of low unemployment | 1 |
| Provides explanation of WHY it’s a benefit to the economy | 1 |
| **Subtotal (x3)** | **6** |
| **Answers may include**Any of the following:* Bigger pool or surplus of labour to choose from
* Less pressure for firms to pay higher wages
* Less risk of industrial / strike action – fear of job losses – leading to reduced trade union power
* Rise in people working 🡪 rise in incomes 🡪 more equitable distribution of income
* Rise in real living standards
* Decreased health risks (stress, reduction in quality of diet, social exclusion because of loss of work and income) 🡪lower health costs for the government
* Rise of marketable skills (human capital) and motivation; increases human capital
* Decreased spending on unemployment benefits and other indirect welfare benefits
* Rise in revenue from income tax and taxes on consumer spending
* Rising output (real GDP) from people working – the economy will be operating on its PPF.
* Any other valid benefit
 |
| **Total** | **6** |

***End of Questions***