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# **West Australian Test Papers**

# **ECONOMICS**

**Units 1 & 2**

# **2017**

# **MARKING GUIDE**

 Please note that the following notes are guidelines only and are intended

 to provide a common reference for markers. They are in no way to be

 considered as an exhaustive guide or checklist for the marking of this exam.

|  |  |
| --- | --- |
| **1** | B |
| **2** | D |
| **3** | D |
| **4** | C |
| **5** | D |
| **6** | A |
| **7** | C |
| **8** | B |
| **9** | C |
| **10** | C |
| **11** | D |
| **12** | A |
| **13** | C |
| **14** | D |
| **15** | B |
| **16** | A |
| **17** | C |
| **18** | A |
| **19** | C |
| **20** | D |
| **21** | C |
| **22** | B |
| **23** | D |
| **24** | D |

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

**Question 25**

1. Calculate the real rate of Economic growth for 2015. (2 marks)

|  |  |
| --- | --- |
| **Description** | **Marks** |
| Real GDP= Nominal GDPxCPI year 1/CPI 2570x100/105= 542.8 ( can be rounded to 543) | 1 |
| Economic Growth= 543-500/500x100= 8.6% | 1 |
| **Total** | **2** |

1. Outline any three (3) factors that influence an economy’s level of economic growth. (3 marks)

|  |  |
| --- | --- |
| **Description** | **Marks** |
| One Mark for each factor ( any 3) ( ½ mark for stating and ½ mark for outlining the factor) |
| * World economic conditions.
* Population changes.
* Improvements in technology.
* Improvement in skills and productivity of the labour force.
* International trade liberalisation.
* Increase in capital-labour ratio
* Availability of resources.
 |  |
| **Total** | **3** |

1. Outline three (3) benefits and three (3) costs of economic growth. (6 marks)

|  |  |
| --- | --- |
| **Description** | **Marks** |
| Advantages: (any 3)* Improved material living standards – e.g. the quality and quantity of consumer goods produced increases, improved health and nutrition and longer life expectancy.
* Increased employment opportunities.
* Improved working conditions, Improved social welfare and community infrastructure.
* Improved social and economic mobility – economic growth requires a high mobility of resources to respond to structural change. This can break down economic and social barriers
* More even pattern of wealth distribution. ( due to increase in employment)
 | 3 |
| Disadvantages: (any 3)* Inflation – Increases in demand due to economic growth may lead to demand pull inflation. This is especially true with high growth rates.
* Market concentration – economic growth combined with structural change may lead larger companies into dominant market situations, i.e. monopolies
* Longer working hours
* Structural UE due to improvement in technology.
* Gap between rich and poor may rise.
* Resource depletion.
 | 3 |
| **Total** | **6** |

**Question 26**

1. Calculate the following: (4 Marks)

|  |  |
| --- | --- |
| **Description** | **Marks** |
| 1 mark for each calculation (1/2 marks if no $ bn)1. $5 billion
2. $2 billion
3. -$9 billion
4. Deficit
 | 4 |
| **Total** | **4** |

1. Describe the structure of Current Account. (4 Marks)

|  |  |
| --- | --- |
| **Description** | **Marks** |
| Define Balance of Payments | 1 |
| Current account- outline the four sub accounts Goods , Services, Primary Income and Secondary Income.  | 3 |
| **Total** | **4** |

1. Explain how the Financial Account is linked to the Current Account

 (4 Marks)

|  |  |
| --- | --- |
| **Description** | **Marks** |
| * If the level of foreign investment into Australia increases, this will increase the Financial account surplus and increase CAD due to increase in income deficit (greater debt servicing ratio)
* Increase in debits as interest repayments are recorded in Primary income.
* Explain the relationship.
 |  |
| **Total** | **4** |

**Question 27**

1. What is the tax-free threshold for the above economy? (1 Mark)

|  |  |
| --- | --- |
| **Description** | **Marks** |
| $ 0-9000$ | 1 |
| **Total** | **1** |

b. Using data from the above table, outline what type of tax this represents. (2 Marks)

|  |  |
| --- | --- |
| **Description** | **Marks** |
|  The students should identify the type of tax and use data to justify the answer |  |
| * Progressive tax system.
* Data ( tax rates increase from 15 Cents to 40 Cents)
 | 2 |
| **Total** | **2** |

1. Illustrate and explain how the Lorenz curve measures inequality in the distribution of income. (3 marks)

|  |  |
| --- | --- |
| **Description** | **Marks** |
| Lorenz Curve fully labelled Axis, Line of equality, Loren Curve | 1 |
| * Lorenz curve illustrates income distribution. The lines indicate the level of income distribution.
* If income was distributed equally, the curve would be a straight line. ( line of equality)
* If income inequality exists, the curve will bow outwards. Further the curve is away from the straight line, the more unequal distribution of income in that country.
 | 2 |
| **Total** | **3** |

1. Explain the relationship between a Lorenz curve and Gini- Coefficient. ( 2 marks)

|  |  |
| --- | --- |
| **Description** | **Marks** |
| * Gini Coefficient is the proportion of the area between the line of equality and the bowed curve.
* Relationship between Lorenz Curve and Gini coefficient is the more the Lorenz curve line curves away from the line of equality, the greater the degree of inequality.
 | 2 |
| **Total** | **2** |

1. Explain two ways the Australian government attempts to reduce income inequalities in the economy. (4 marks)

|  |  |
| --- | --- |
| **Description** | **Marks** |
| * Income tax
* Transfer payments

(One mark for outlining and one mark for explaining each policy | 22 |
| **Total** | **4** |

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

**Question 28 (20 Marks)**

1. Explain the concepts of Price Elasticity of Demand (Ped) and Income Elasticity of Demand (Yed). Give examples for each ( 6 marks)

|  |  |
| --- | --- |
| **Description** | **Marks** |
| Definition of price elasticity of demandExamples are a must. If not provided take one mark off.Formula | 111 |
| Definition of income elasticity of demandExamples are a must. If not provided take one mark off.Formula | 111 |
| **Total** | **6** |

1. The Australian government introduces a tax of 15% on Samsung laptops and Alcohol. Using diagrams, explain the impact on the demand for each good due to the imposition of tax. (14 marks)

|  |  |
| --- | --- |
| **Description** | **Marks** |
| Diagram of tax imposition on Samsung- clearly labelled and showing the effect | 3 |
| Diagram of tax imposition on Alcohol- clearly labelled and showing the effect | 3 |
| SamsungExplanation should include- types of good ( elastic or inelastic) , what curve would shift( supply curve)Who would benefitHow much tax revenue would be raised calculate and show it on graph too) Formula to calculate- new tax x the supply | 4 |
| AlcoholExplanation should include- types of good ( elastic or inelastic) , what curve would shift( supply curve)Who would benefitHow much tax revenue would be raised calculate and show it on graph too) | 4 |
| **Total** | **14** |

**Question 29 (20 Marks)**

1. Identify and describe the components of Aggregate Expenditure. (10 Marks)

|  |  |
| --- | --- |
| **Description** | **Marks** |
| Definition of AE Equation | 2 |
| Explanation of the components using examples:Consumption – Expenditure on durable, non-durable goods and services.Investment- fixed investment, capital equipment, residential investment, changes in business inventories.Government-current and capital expenditure.Net Exports- value of goods sold overseas, value of goods bought from overseas. | 4x2=8 |
| **Total** | **10** |

1. Using the Circular flow of income model, explain how changes in leakages and injections can effect the level of economic activity in Australia. (10 marks)

|  |  |
| --- | --- |
| **Description** | **Marks** |
|  |
| * Draw the expanded ( 5 sector) Circular flow model
* Clearly labelled
* Define the model, leakages and injections using examples from the model.
 | 4 |
| Explain the impact of changes in leakages  | 2 |
| Explain the impact of changes in injections. | 2 |
| Impact of the changes on the level of economic activity – unemployment, exports, imports, inflation, economic growth.  | 2 |
| **Total** | **10** |

**Question 30 (20 Marks)**

1. Define unemployment and explain any four types of unemployment. (8 Marks)

|  |  |
| --- | --- |
| **Description** | **Marks** |
| Definition of UnemploymentMeasurement of UE rate: Total UE/Labour force x 100 |  11 |
| * Cyclical
* Seasonal
* Frictional
* Structural

One mark for outlining and one mark for explaining using an example. |  3x2=6 |
| **Total** | **8** |

1. Using examples, explain the impact of high levels of unemployment (12 marks)

|  |  |
| --- | --- |
| **Description** | **Marks** |
| Any 6 (six) impacts explained.* Unused resources make no contribution to the production process and thus earn no income.
* Plant and equipment become obsolete
* Loss of skills – causes quality of workforce to decline.
* Living standards will fall
* Debt may rise
* Consumption expenditure will decrease due to loss of disposable income.
* Government budget deficit will rise due to the rise in transfer payments.
* Low inflation
* Crime rate increase
* Self-esteem and mental health
 | 6x2= 12 |
| **Total** | **12** |

**Question 31 (20 Marks)**

1. Using examples, illustrate and explain the difference between positive and negative consumption externalities. (12 marks)

|  |  |
| --- | --- |
| **Description** | **Marks** |
| * Positive consumption externality – when the consumption of a good or service creates an external benefit for third parties.
* Examples- education, flu injection
* Graph ( 2 for graph and 1 for description)
 | 213 |
| * Negative consumption externality – when the consumption of a good or service creates an external loss for third parties.
* Examples- traffic congestion, pollution
* Graph ( 2 for graph and 1 for description)
 | 213 |
| **Total** | **12** |

1. Using models, explain how the government can internalise a negative production externality to raise market efficiency. (8 marks)

|  |  |
| --- | --- |
| **Description** | **Marks** |
| * Negative externality- can be internalised by imposition of Tax on producers equal to the external cost.
* Graph- clearly labelled, supply curve shift left, CS, TS, DWL
* Explain the graph
 | 134 |
| **Total** | **8** |