

ECONOMICS Examination 2016

**ATAR Year 11 – Units 1 and 2**

**Student Name: \_\_\_\_\_\_\_ANSWERS\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**

**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.

Structure of this paper

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| SECTION | FORMAT | NO. OF QUESTIONS AVAILABLE | NO. OF QUESTIONS TO BE ATTEMPTED | SUGGESTED TIME / MINUTES | MARKS |
| **1** | Multiple Choice | 24 | ALL | 35 | 24 |
| **2** | Data Interpretation and short answer | 3 | ALL | 65 | 36 |
| **3** | Sectionalised long answer | 4 | 2 | 80 | 40 |

**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.

***See next page***

**Section 1: Multiple Choice (24 Marks)**

This section has **24** 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: 35 minutes

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1 Which one the following lists contains only items which are part of the factor
 market?

 a) cars, land, wheat, trousers and computers

 b) machinery, wool, labour and tools

 c) hats, petrol, sports contests and hairdressers

 d) music, radios, CDs and DVDs

2 Which of the following does **not** explain the law of demand?

 a) the law of diminishing marginal utility

 b) the substitution effect

 c) the income effect

 d) the ceterus paribus assumption

3 The most important factor affecting demand is

 a) income

 b) price

 c) expectations

 d) fashion

4 If the price of petrol rises the

 a) demand for cars is likely to rise

 b) demand for LP gas is likely to fall

 c) demand for public transport may rise

 d) demand for DVDs may rise

5 An increase in population will cause the demand for most goods and services
 to

 a) expand

 b) contract

 c) increase

 d) decrease

6 During summer both the price and quantity of tomatoes sold increases. How
 can this be explained?

 a) tomatoes are an inferior good

 b) there has been an expansion in the demand for tomatoes causing a
 movement along the demand curve

 c) tomatoes are a complementary good

 d) the demand curve for tomatoes shifts to the right

7 A severe frost will cause the supply curve for vegetables to

 a) shift to the right and become more elastic

 b) shift to the right and become less elastic

 c) shift to the left and become more elastic

 d) shift to the left and become less elastic

8 Which of the following have a greater price elasticity of supply?

 a) blank CDs

 b) old masters’ paintings

 c) hand-made designer clothing

 d) wheat

9 Goods which have a negative cross elasticity of demand are likely to be

 a) substitute goods

 b) complementary goods

 c) luxury goods

 d) inferior goods

10 Negative externalities like pollution cause

 a) goods to be overproduced

 b) inferior goods to be produced

 c) an increase in consumerism

 d) goods to be overvalued

11 Consumer surplus exists because

 a) consumers always maximise satisfaction

 b) economies of scale reduce production costs

 c) many consumers are willing to pay more than the market price

 d) the ceterus paribus assumption always applies

12 Inferior goods like cheap cuts of meat will have

 a) a low income elasticity of demand

 b) a high income elasticity of demand

 c) negative cross elasticity of demand

 d) positive cross elasticity of demand

13 The provision of public housing (ie state housing) is an attempt to increase

 a) competition

 b) equity

 c) efficiency

 d) productivity

14 If leakages are greater than injections it is likely that

 a) the economy will contract and unemployment will increase

 b) there will be an improvement in the Current Account Deficit

 c) the economy will move back to equilibrium and full employment

 d) it will become necessary to increase interest rates to prevent inflation

15 A recession will occur when

 a) both unemployment and inflation are at very high levels

 b) there is high unemployment and negative economic growth

 c) employment levels are increasing whilst economic growth is slowing

 d) the current account deficit reaches record levels

16 Investment in economics includes

 a) buying BHP shares

 b) building a new house

 c) purchasing land which is likely to increase in value

 d) increasing superannuation contributions

17 Economic growth usually results in

 a) reduced structural unemployment

 b) the increased material welfare of everyone in the economy

 c) a reduction in inflation

 d) an increased capacity to produce goods and services

18 When inflation affects an economy

 a) the value of money increases

 b) the real value of goods and services falls

 c) people on fixed incomes are disadvantaged

 d) lenders benefit at the expense of borrowers

19 Wage rises can result in

 a) an increase in cost push inflation only

 b) a decrease in the level of consumer demand

 c) a recession because they are unwarranted

 d) an increase in both cost push and demand pull inflation

20 The natural rate of unemployment is obtained when:

 a) the labour market moves into equilibrium

 b) there is no cyclical unemployment

 c) unemployment has been eliminated completely

 d) unemployment benefits are reduced to acceptable levels

21 A mother wishes to return to work when her children go to school but is unable to find paid employment. If she gives up her search, she would be classified as being part of the

 a) long term unemployed

 b) hidden unemployed

 c) underemployed

 d) structurally unemployed

22 Why would the Reserve Bank consider increasing interest rates?

 a) to allow retirees to earn higher income from their bank deposits

 b) to attempt to increase the level of private sector investment

 c) to try to increase the amount of employment in Australia

 d) to try to reduce the chance of inflation getting too high

23 Dividends paid to London based shareholders in BHP would appear in Australia’s Balance of Payments as a:

 a) credit item on the current account

 b) debit item on the capital account

 c) credit item on the capital account

 d) debit item on the current account

24 If the Consumer Price Index increased from 150 to 156 the inflation rate would be:

 a) 4%

 b) 6%

 c) 10%

 d) 12%

***End of Section 1***

***See next page***

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

This section contains **three (3)** 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: 65 minutes.

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**Question 25 (12 marks)**

The following economic indicators are from an imaginary country with similar institutions to Australia.

**ECONOMIC INDICATORS (2013-16)**

|  |  |  |
| --- | --- | --- |
| INDICATORS | 2013-2014 | 2015-16 |
| Retail Interest Rates (%) | 4.25 | 3.0 |
| Employment Vacancies(% of workforce) | 3.0 | 2.5 |
| Exchange Rates (US$) | 94c | 89c |
| Unemployment Rate(% of workforce) | 7.0 | 8.2 |
| Consumer Price Index(% change) | 3.2 | 1.8 |
| Consumer Spending(% change) | 5.2 | 4.0 |
| Imports (% of GDP) | 10 | 8.4 |
| Domestic Output (% change) | 4.4 | 4.0 |
| Business Investment(% change) | 3.0 | -0.2 |
| Dwelling Approvals (000’s) | 152 | 140 |
| Retail Sales Volume(% change) | 6.8 | 5.0 |

(a) (i) What is the inflation rate in 2015-16?\_\_\_\_\_\_1.8%\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ (1mark)

 (ii) Which of these indicators is likely to be an example of a “Leading indicator”?

 (1 mark)

 \_\_\_\_\_\_Dwelling approvals

(b) Which indicator in the above table is the most volatile? Justify your answer. (2 marks)

 \_\_\_\_\_Business Investment. It has fallen from 3.0% to -0.2%, which is a change of 3.2%. Investment is volatile as it is highly reactive to changes in the level of risk in an economy.

(c) Indicate where this country would be located on the Business Cycle in 2015-16?

 Use any two indicators from the table to justify your answer. (3 marks) \_\_\_The economy is likely to be in a downswing.

\_\_\_\_\_\_\_Employment vacancies has fallen from 3.0% to 2.5% of the population, indicating that firms are decreasing production and hiring fewer workers. CPI has fallen from 3.2% to 1.8%, indicating that there are lower levels of demand and production within the economy. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

(d) Describe the other three phases of the Business Cycle. (6 marks) Upswing: Increasing economic growth, decreasing unemployment rates and increasing inflation.

Boom/Peak: High levels of economic growth, high inflation and low unemployment levels.

Trough: Low economic growth, low inflation, high unemployment levels and high degrees of spare capacity in the economy. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

**Question 26 (12 marks)**

Oil Prices? What is going to happen going forward?

First there was the announcement that the oil producing cartel OPEC appears to have patched up its differences after years of political infighting and agreed to reduce production. Then Russia announced that it was in agreement with OPEC and it would also cap oil production.

As a result of these announcements the oil price rose to its highest level in a year even before the caps were put in place.

Just as Economists were trying to assess what it'll do to growth and inflation, beginning with petrol prices for motorists it has been pointed out that one of the major reasons for the fall in oil prices has been the rapid increase in fracking in North America.

Conventional oil wells require large amounts of capital and these oil fields take years to become productive. Often they produce oil for decades.

Shale oil wells on the other hand only take a few weeks to drill and commence the fracking process. They do however only has a lifetime of a few years. This means that it is very easy for shale oil producers to change the amount they produce.

(a) Compare the elasticity of supply of shale oil with that of conventional oil producers.
 (2mark)

 \_\_\_\_\_The price elasticity of supply for shale oil would be higher and more price elastic compared to conventional oil producers. This is because shale oil production requires a short time period to start and therefore makes it easy for shale oil producers to change the amount of oil they produce.

(b) Using your knowledge of microeconomics explain why the price of oil is likely to rise

 more in the short term. Use a diagram to illustrate your answer. (3 marks)

 \_\_\_\_\_Diagram: Demand and supply, showing that supply is relatively price inelastic in the short run.

 Explanation: Difficult to increase supply in short run, so more price inelastic. In long run, producers can increase their supply, helping to lower prices in the long run. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

 (c) Use an AD/AS Diagram to show the macroeconomic impact of oil price rises.

 (4 marks)

 \_\_\_\_Model: 2 marks

 Explanation: Increase in oil prices 🡪 Increase in cost of production 🡪 AS curve shifts to the right.

 Increase in cost-push inflation, overall inflation within the economy would increase. Overall production would also fall (real GDP would decrease). \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

(d) Discuss the possible impact of the OPEC production cap on shale oil producers.

(4 marks)

 \_\_\_\_The OPEC production cap would encourage shale oil producers to increase production to help meet global demand as shale oil is relatively price elastic for supply. The demand for shale oil is likely to increase and help to increase the revenue of shale oil producers.

 The OPEC production cap would also drive oil prices up, further helping to increase the revenue of shale oil producers. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

**Question 27 (12 marks)**



 (a) What was the unemployment rate in 2007? (1 mark)

 \_\_\_\_\_4%\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

(b) Describe the level of frictional unemployment in 2007. Justify your answer. (3 marks)

 \_\_\_The level of frictional unemployment is likely to be slightly below 4%. This is because the unemployment rate is made up of frictional, structural and cyclical unemployment. Given the low rate of unemployment, cyclical unemployment is likely to be close to zero, making frictional unemployment below 4%. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

(c) Describe the relationship between the unemployment rate and the business cycle.

 (3 marks)

 \_\_\_\_The trends in the unemployment rate are countercyclical to the business trade cycle. When the business cycle is in upswing, we would expect to see decreasing levels of unemployment. When the business cycle is in downswing, we would expect to see increasing levels of unemployment. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

(d) Explain why the statistics shown above tend to underestimate the level of unemployment. (5 marks)

 \_\_\_\_\_\_Official rates of unemployment do not account for discouraged workers, who do not have a job but have stopped looking for one.

 It also does not account for disguised unemployment, which is the underemployed workers. As the definition of being employed only requires a person to be working for one hour a week, it excludes people who may only be working a few hours a week and consider themselves effectively unemployed.

 Finally, it does not account for people who may have been put on forced leave but are still effectively employed by their employers. Therefore, the rate of unemployment tends to be underestimated. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

***End of Section 2***

***See next page***

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

This section contains **four (4)** questions. You must answer **two (2)** questions. Write your answer on the lined pages provided.

Suggested working time: 80 minutes.

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**Question 28 (20 marks)**

1. Explain the concepts of price elasticity of demand and price elasticity of supply. (4 marks)
* Define PED and PES
* Use examples to explain elastic and inelastic

b. Use examples to explain why:

 i. the price elasticity of demand varies depending on the good or service involved. (8 marks)

* Use examples to describe the factors affecting PED

 ii. the price elasticity of supply varies depending on the good or service involved. (8 marks)

* Use examples to describe the factors affecting PES

**Question 29 (20 marks)**

a. Outline how headline inflation is calculated in Australia. (6 marks)

* Define inflation
* Define CPI
* Describe CPI and how it is calculated

b. Explain the problems associated with inflation which falls outside target rate.

 (14 marks)

* State the target rate
* Describe consequences of high inflation (6 problems)

**Question 30 (20 marks)**

a. Outline the problems associated with using GDP figures to measure changes in standard of living. (10 marks)

* Define GDP
* Define standard of living
* Describe limitations of GDP as a measure of standard of living (4 limitations)

b. Analyse the costs and benefits of Economic Growth.. (10 marks)

* Define economic growth
* Describe costs of economic growth (3-4 costs)
* Describe benefits of economic growth (3-4 benefits)

**Question 31 (20 marks)**

a. Describe the components of the business trade cycle. (10 marks)

* Define business trade cycle
* Describe each phase with reference to indicators (upswing, downswing, boom, trough)

b. Describe the relationships between the Government’s economic objectives.

 (10 marks)

* Define the government economic objectives (all five)
* Describe conflicting objectives
* Describe complementary objectives

***End of Exam***