

**YEAR 11 ATAR Course Examination**

**Question/Answer Booklet**

**ECONOMICS Units 1 & 2**

**Semester 2 2018**

**Student number: ANSWER KEY**

**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

Two separate booklets for your extended answers

***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 material. If you have any unauthorised material with you, hand it to the supervisor **before** reading any further.

**Structure of this paper**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Section | Number of questions available | Number of questions to be answered | Suggested working time (minutes) | Marks available | Percentage of examination |
| Section One  Multiple-choice | 24 | 24 | 30 | 24 | 24 |
| Section Two  Data interpretation / Short answer | 3 | 3 | 70 | 36 | 36 |
| Section Three  Extended answer | 4 | 2 | 80 | 40 | 40 |
|  |  |  |  | Total | 100 |

**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, either place a cross over the correct answer or shade in the correct answer. Use only a blue or black pen. If you make a mistake, place a cross through that square, then select 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: Write your answers in this Question/Answer Booklet.

Section Three: Write each answer in a ***separate booklet***.

2. You must be careful to confine your answers to the specific questions asked and to follow any instructions that are specific to a particular question.

3. Supplementary pages for the use of planning/continuing your answer to a question have been 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.

***See next page***

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

This section has **24** questions. Answer **all** questions on the separate Multiple-choice answer sheet provided. For each question, either place a cross over the correct answer or shade in the correct answer. Use only a blue or black pen to shade the boxes. If you make a mistake, place a cross through that square, then select 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.

Suggested working time: 30 minutes

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1. The most important feature of a competitive market is that it

(a) must have a physical location.

(b) includes markets for goods and services but not for inputs.

(c) has so many buyers and sellers that no one can influence the price.

(d) has one seller competing to sell his or her product.

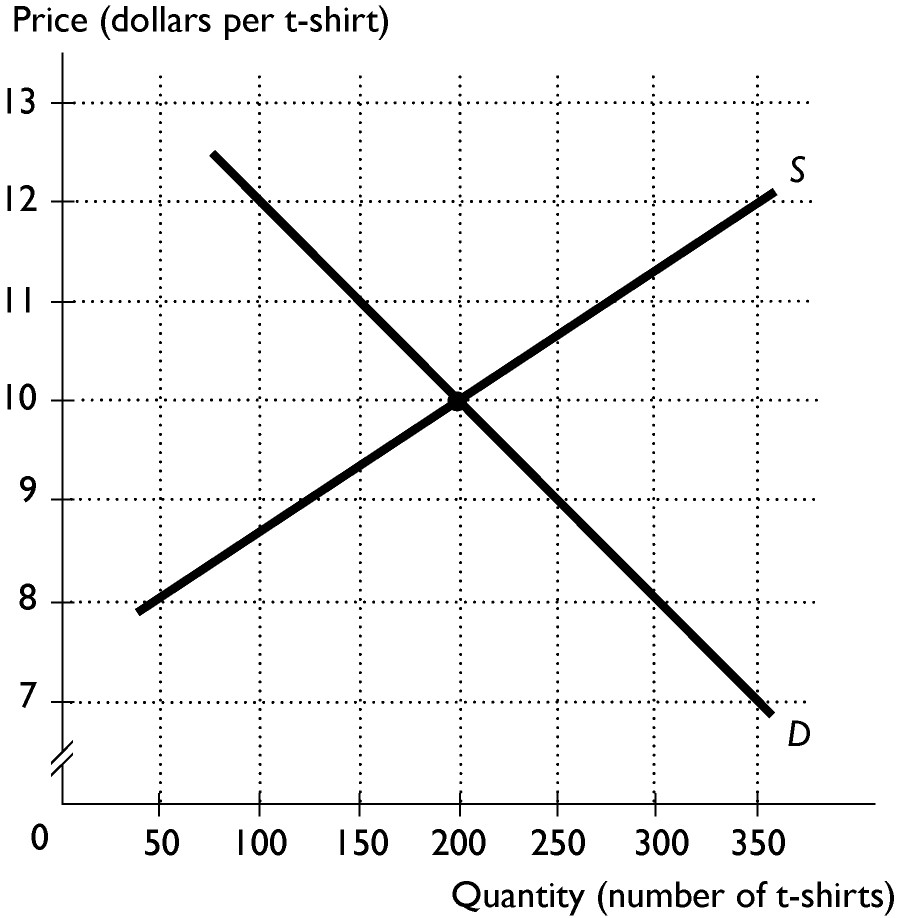
2. Suppose over the next several years the productivity of firms producing electric cars improves dramatically. The advance in productivity leads to

(a) a decrease in the supply of electric cars so that the supply curve shifts leftward.

(b) a decrease in the supply of electric cars so that the supply curve shifts rightward.

(c) an increase in the supply of electric cars so that the supply curve shifts leftward.

(d) an increase in the supply electric cars so that the supply curve shifts rightward.

3. The diagram shows the market for t-shirts. If the price of t-shirts is $8, then

(a) there is a shortage and the price of t-shirts will rise.

(b) there is a surplus and the price of t-shirts will rise.

(c) there is a shortage and the price of t-shirts will fall.

(d) there is a surplus and the price of t-shirts will fall.

4. Which of the following statements is correct?

(a) The demand for Nike shoes is more elastic than the demand for shoes in general.

(b) The demand for luxuries is less elastic than the demand for necessities.

(c) The demand for a narrowly defined good is less elastic than the demand for a more broadly defined good.

(d) The larger the proportion of income spent on a good, the smaller the elasticity of demand.

***See next page***

5. The impact on the market for strawberries of the needle scare has been

(a) a decrease in the demand for strawberries resulting in a fall in prices

(b) a contraction in the demand for strawberries as a result of falling prices

(c) a decrease in the supply of strawberries resulting in an increase in prices

(d) an expansion in the supply of strawberries as a result of falling prices.

6. If a small percentage increase in the price of chocolate causes a larger percentage increase in the quantity supplied, the

(a) supply of chocolate is inelastic.

(b) demand for chocolate is elastic.

(c) supply of chocolate is elastic.

(d) demand for chocolate is inelastic.

7. Andrea said to her friend, "I just bought a new pair of dancing shoes and I love them so much that I totally would have paid more for them." Andrea was describing the concept of

(a) producer surplus.

(b) consumer surplus.

(c) equilibrium.

(d) total surplus.

8. For resource use to be allocatively efficient, when the marginal benefit of a slice of pizza exceeds the marginal cost, \_\_\_\_\_\_\_\_.

(a) more slices of pizza should be produced

(b) fewer slices of pizza should be produced

(c) no more slices of pizza should be produced

(d) allocative efficiency is reached *only if* the marginal benefit exceeds the marginal cost by as much as possible

9. Suppose a price floor on wine is proposed by the Health Minister. What will be the likely effect on the market for wine?

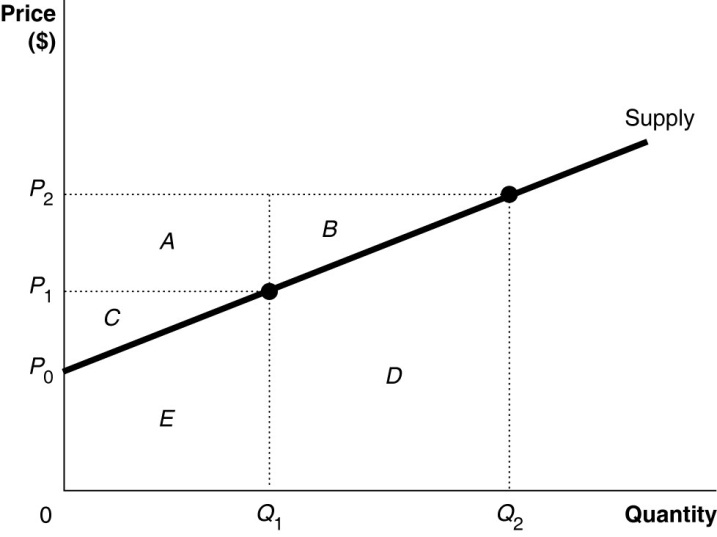
(a) Quantity demanded will increase, quantity supplied will decrease, and a surplus will result.

(b) Quantity demanded will decrease, quantity supplied will increase, and a surplus will result.

(c) Quantity demanded will decrease, quantity supplied will increase, and a shortage will result.

(d) Quantity demanded will increase, quantity supplied will decrease, and a shortage will result.

***See next page***

10. Refer to the figure opposite.What area represents producer surplus when the market price is *P2*?

(a) A + B

(b) A + B + C

(c) D + E

(d) A + B + C – D – E

11. A good that is \_\_\_\_\_\_\_\_ and \_\_\_\_\_\_\_\_ is a \_\_\_\_\_\_\_\_.

(a) rival; nonexcludable; private good

(b) rival; excludable; club good

(c) nonrival; excludable; common resource

(d) nonrival; nonexcludable; public good

12. The deadweight loss associated with producing a product that has an external cost occurs because

(a) too much output is produced.

(b) too little output is produced.

(c) the price firms charge for the good is too high.

(d) not enough resources are allocated to producing the good.

13. Which of the following wouldbe regarded as part of microeconomics?

(a) the unemployment rate

(b) the rate of economic growth

(c) the level of tariffs in the vehicle industry

(d) the level of business confidence

14. Which type of unemployment normally increases during a downswing?

(a) Frictional

(b) Structural

(c) Cyclical

(d) Seasonal

15. Which one of the following is an example of government capital expenditure?

(a) personal income tax refunds

(b) payment of unemployment benefits

(c) government loans to students for university fees

(d) provision of transport infrastructure

***See next page***

16. Refer to the hypothetical data for an economy below:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| G | M | T | I | X | S |
| 25 | 60 | 30 | 20 | 70 | 35 |

Which statement about this economy is correct?

(a) It is expanding because exports are greater than imports.

(b) It is contracting because savings are greater than taxation.

(c) It is expanding because injections are greater than leakages.

(d) It is contracting because leakages are greater than injections.

17. The rate of growth of real Gross Domestic Product (GDP) per capita might understate the improvement in living standards if

(a) inflation is increasing.

(b) pollution is increasing.

(c) population is increasing.

(d) leisure time is increasing.

18. Which of the following would be considered leading economic indicators?

i. Share prices

ii. Inflation rate

iii. Unemployment rate

iv. Building permits

v. Real GDP

(a) ii and iii

(b) i and iv.

(c) ii and v

(d) iv and v

19. The two largest categories in the CPI are

(a) transport and health

(b) food and entertainment

(c) clothing and food

(d) housing and food

***See next page***

20. Which one of the following would be recorded as a debit in Australia’s balance of payments on current account?

(a) the sale of Australian wool to Italy

(b) an increase in the number of foreign tourists visiting Australia

(c) interest paid on Australian Government bonds to overseas investors

(d) a Chinese company purchasing a farming property in rural Australia

21. The distribution of income is likely to become more equitable in the Australian economy if the government were to

(a) move from a progressive to a proportional income tax system.

(b) increase the goods and services tax (GST) from 10% to 15%.

(c) increase spending on education and health.

(d) remove the capital gains tax.



22. The diagram opposite shows Lorenz curves for country A and country B. Which of the following statements is correct?

(a) Country A has a less equitable distribution of income than country B.

(b) Country A has a more equitable distribution of income than country B.

(c) The Gini coefficient for country A is equal to 1.

(d) The Gini coefficient for country A is greater than for country B.

23. An example of a progressive tax is \_\_\_\_\_\_\_\_\_\_\_\_\_ and an example of a regressive tax is \_\_\_\_\_\_\_\_\_\_\_\_ .

(a) excise duty; company tax

(b) company tax; personal income tax

(c) GST; capital gains tax

(d) personal income tax; excise duty

24. Which of the following statements is correct regarding Australia’s economic performance during 2018?

(a) Australia’s growth rate increased and the unemployment rate decreased.

(b) Australia’s growth rate decreased and the inflation rate decreased.

(c) The economy reached a peak in the business cycle.

(d) The economy reached a trough in the business cycle.

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***End of Section One***

***See next page***

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

This section contains **three (3)** questions. Answer **all** questions. Write your answers in the

spaces provided.

Supplementary pages for the use of planning/continuing your answer to a question have been 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.

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**Question 25 (12 marks)**

**Pain at the Bowser**

By John Bamlett dated: 10 Sept 2018

Perth motorists are being forced to pay more at their local petrol stations. Prices have risen to almost $1.60 per litre. They are angry about this and want to know what is causing this spike in prices. To try to get some understanding of the situation I asked Yin Lee, a prominent economist, for an explanation. She said that ‘Petrol is produced from the refining of oil. Petrol prices have risen because of a rise in oil prices following the US’s embargo on Iran and the fact that Cyclone Michael has destroyed oil wells in the Gulf of Mexico’.

1. i) Provide one reason from the text for the rise in the oil price

(1 mark)

|  |
| --- |
| US embargo on Iran OR |
| Cyclone Michael destroying oil wells in the Gulf of Mexico |
|  |

1. Suggest one possible effect the rise in petrol prices mentioned in the article could have on consumer behaviour. (1 mark)

|  |
| --- |
| Consumers could decide to drive less to use less petrol. |
| Substitute good – use public transport |
| Any reasonable answer. |

1. Explain the relationship between petrol prices and oil prices. (4 marks)

|  |
| --- |
| Oil is an input good for petrol. |
| Demand for oil is derived from demand for petrol. |
| If prices for oil go up, cost of production of petrol increases, supply curve for petrol moves to the left - the price for petrol will also increase. |
| Positive cross-price elasticity |
|  |
| Must make the connection of oil being an input for petrol (which is clearly stated in the article) |
| and petrol supply curve moving to left - 2 marks |
| 1 mark for effect on price of petrol |
| 1 mark for positive cross-price elasticity/derived demand |
|  |
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1. Using a diagram, explain how the price mechanism should work to clear the shortage in the oil market following Cyclone Michael. (6 marks)

|  |  |
| --- | --- |
|  | Cyclone Michael destroys oil wells. |
|  | Causes decrease in supply 🡪 Shifting S curve |
|  | Leftwards – 2 marks |
|  | Qd < Qs causing shortage |
|  | \*\*Consumers bid for limited supply, pushing prices upwards – 1 mark |
|  | Supply will expand at higher prices |
|  | Demand will contract at higher prices |
|  | This continues till Qd=Qs |
|  | Shortage gets eliminated |
|  | 2 marks |
|  | |
| \*\*Need clear reference to price mechanism directly or indirectly – 1 mark | |
|  | |
|  | |

**Question 26 (12 marks)**

**Energy Markets was too Concentrated**

The Grattan Institute's Tony Wood said there was no doubt Australia's energy market was too concentrated. The ACCC found this concentration resulted in a lack of competition, which has kept power prices high.

"In this case, I think the ACCC is absolutely right," Mr Wood, the think tank's energy program director, said. "Some of that has happened through past mergers and acquisitions, some through government ownership and some through plants closing down and leaving the existing ones with a high market power."

A lack of competition and policy mistakes have added significant costs to power bills, the ACCC said. ACCC chairman Rod Sims has recommended changes to the way people are charged for power, saying retailers have made the price structures confusing and difficult to compare.

*Source: Adapted from: http://www.abc.net.au/news/2018-07-11/power-bills-can-be-cut-if-competition-boosted-accc-says/9978690*

1. Define the term ‘market power’. (1 mark)

|  |
| --- |
| Refers to the ability of firms to control prices in a market |
|  |
|  |

1. With reference to the article, identify two ways market power can be accumulated. (2 marks)

|  |
| --- |
| Mergers and acquisitions; Government ownership; Plants closing down so remaining ones have greater market power. |
|  |
| Any 2 responses – 1 mark each |
|  |

***See next page***

1. Using a diagram, explain why there is market failure in the energy market.

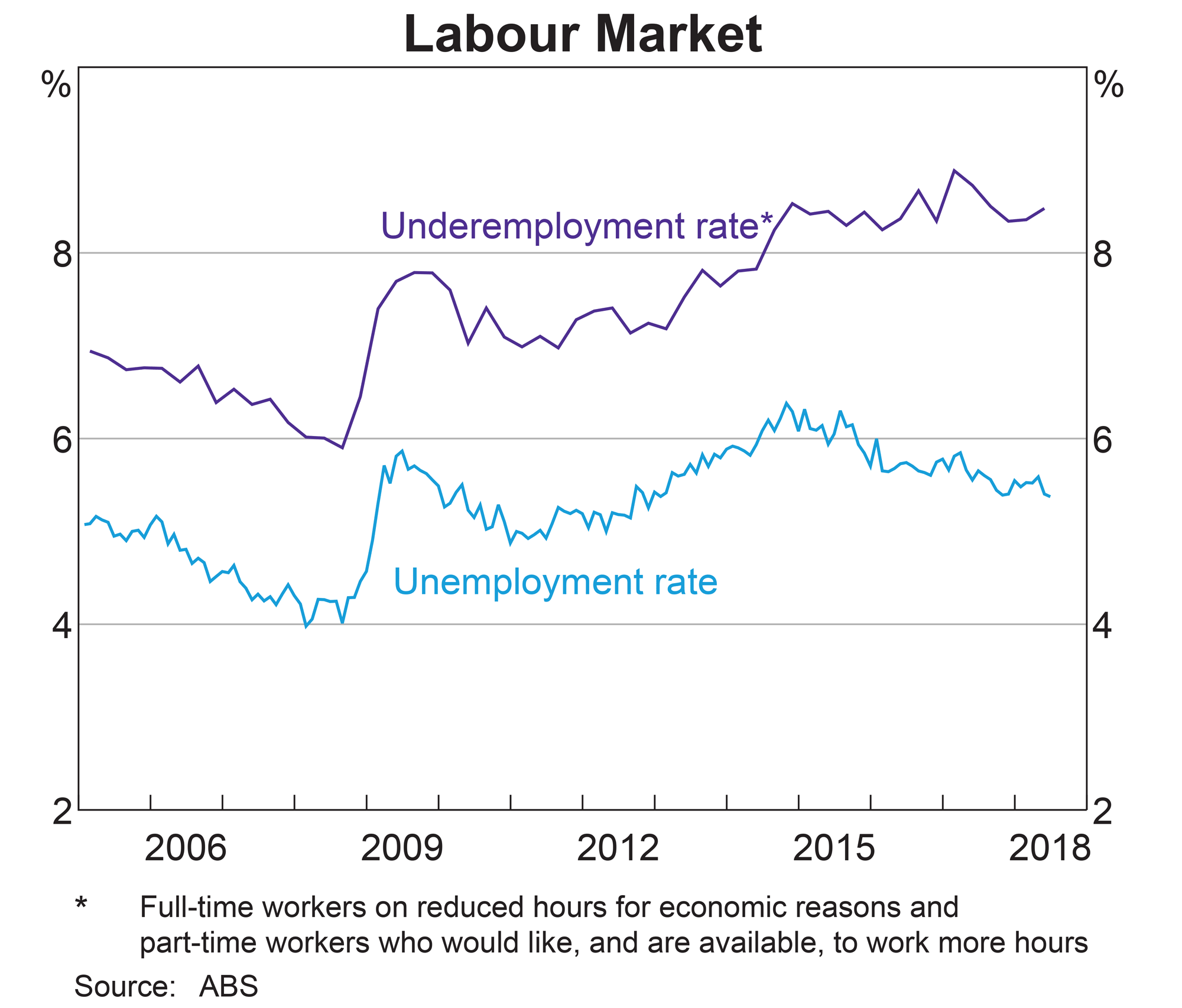
(4 marks)

|  |  |
| --- | --- |
|  | Too much market power |
|  | Diagram – 1 mark |
|  | Firm with market power would increase prices and restrict quantity to increase revenue |
|  | Not consuming/producing at optimum P and Q (as shown on diagram) – 1 mark |
|  | PS increase while CS decreases |
|  | Increase in PS is less than decrease in CS |
|  | TS decreases, resulting in DWL |
|  | Market is inefficient 🡪 Market failure |
|  | 2 marks |
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1. Explain the role of the ACCC and discuss how the government can intervene in the energy market. (5 marks)

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| --- |
| Role of ACCC – 1-2 marks |
| Discussion of government intervention – 3-4 marks |
| * Introduction of price ceiling to keep prices low |
| * Introduce regulation around pricing structures so that it is clearer and more transparent |
| * Offer incentive for new companies to enter energy market, e.g. in the form of subsidies |
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| Any reasonable response that is justified. |
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**Question 27 (12 marks)**



*Source: RBA*

1. i) State the percentage change in the unemployment rate between 2015-18. (1 mark)

|  |
| --- |
| Approx. 0.5% **decrease** [need to have indication of direction for full mark] |

ii) Using the graph, describe what has occurred to cyclical unemployment during 2015 – 2018. (1 mark)

|  |
| --- |
| Cyclical unemployment fell |

1. Describe how the government uses taxation and government spending to reduce income inequality. (4 marks)

|  |
| --- |
| Progressive tax system – Greater tax rate at higher income bracket. Increases vertical equity |
| Government spending: |
| * Welfare payments to increase income of low income earners |
| * Spending on public goods and infrastructure to ensure basic necessities are met |
| * Indirect transfer payments in the form of subsidies to help ensure access to services like education and healthcare |
|  |
| Award full marks for 2 points well-explained or 4 points described |
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1. Using examples, describe the three main types of unemployment. (6 marks)

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| --- |
| 2 marks per type – Define and explain (give examples) |
| Structural UE |
| Frictional UE |
| Cyclical UE |
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***End of Section Two***

***See next page***

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

This section contains **four (4)** questions. Answer **two (2)** questions. Write your answers in the **separate booklets provided** and number your answers clearly.

Suggested working time: 80 minutes.

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**Question 28** **(20 marks)**

a. Using examples, explain the Law of Demand and the Law of Supply. (8 marks)

|  |  |
| --- | --- |
| Description | Marks awarded |
| Law of Demand   * State: As P increases, Qd decreases * Explain:   + Substitution effect   + Income effect   + Law of diminishing returns   Include a diagram | 4 |
| Law of Supply   * State: As P increases, Qs increases * Explain:   + As P increases, the profit that firms can earn increases   + Firms are profit driven   + Will produce more at higher prices   Include a diagram | 4 |

b. Explain reasons for implementing price controls. Using appropriate diagrams, explain the effects of price controls in a market. (12 marks)

|  |  |
| --- | --- |
| Description | Marks awarded |
| Reasons for implementing price controls   * Increase horizontal equity e.g. if petrol prices are too high * To allow a basic level of income e.g Minimum wage   Any reasonable response. Need explanation with example | 4 |
| Effect of price control: Price ceiling   * Diagram – 1m * Description:   + Price set lower than Pe   + Qd > Qs, Shortage results   + CS increases, PS decreases   + PS decreases more than increase in CS   + TS decreases, DWL results 🡪 Inefficient | 4 |
| Effect of price control: Price floor   * Diagram – 1m * Description:   + Price set higher than Pe   + Qs > Qd, surplus results   + PS increases, CS decreases   + CS decreases more than increase in PS   + TS decreases, DWL results 🡪 Inefficient   Note: it is possible students may look at subsidies on merit goods and taxes on demerit goods | 4 |

**Question 29** **(20 marks)**

(a) Explain four factors that affect Price Elasticity of Demand (PED). (8 marks)

|  |  |
| --- | --- |
| Description | Marks awarded |
| Define PED | 1 |
| Explanation of four factors including examples. E.g.:   * Luxury VS Necessity * Proportion of income spent * Definition of market * Addiction   Any reasonable response and example | 2 marks each, max 7 marks |

(b) Explain why firms and government are interested in Price Elasticity of Demand, Income Elasticity of Demand, and Cross Elasticity of Demand.

(12 marks)

|  |  |
| --- | --- |
| Description | Marks awarded |
| PED   * Firms: PED determines what happens if the firm increases prices e.g. If elastic, decreasing P will increase TR. If inelastic, increasing P will increase TR * Government: PED affects tax incidence. If elastic, tax incidence falls on consumers and tax revenue will be smaller due to greater fall in Qd. If inelastic, tax incidence falls on producers and tax revenue will be larger due to small fall in Qd   \*\*Need examples | 6 |
| YED   * Define * Firms: If elastic, Qd will increase more than proportionately with an increase in Y 🡪 Firms should produce more of that good   \*\*Need examples | 3 |
| XED   * Define * Firms: Allows them to know what will happen if the price of related good changes and therefore how the firm should react   \*\*Need examples | 3 |

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**Question 30** **(20 marks)**

(a) Using examples, explain how the composition and direction of trade has changed in Australia in recent times. (8 marks)

|  |  |
| --- | --- |
| Description | Marks awarded |
| Define composition of trade  Explain changes in composition:   * State changes: e.g. Agricultural focus to natural resource/mining focus * Explain: Abundance in natural resources; Developing economies in Asia spurring demand for natural resources | 4 |
| Define direction of trade  Explain changes in direction:   * State: shift from European countries to countries in Asia * Explain: Historical links to Europe/Great Britain. Many developing countries are in Asia. Also Asia is geographically closer, which makes transportation and freight cheaper. | 4 |
| \*\*Include relevant examples |  |

(b) Describe the general structure of the Balance of Payments account. (12 marks)

|  |  |
| --- | --- |
| Description | Marks awarded |
| Define BoP | 1 |
| Current account   * Define * Describe components   + Goods and Services   + Income     - Primary income     - Secondary income | 6 |
| Capital and Financial account   * Define * Describe components   + Capital account   + Investment     - Direct investment     - Portfolio investment     - Other investment     - Reserve assets | 5 |

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**Question 31** **(20 marks)**

(a) Draw a diagram of the business cycle and describe the characteristics of each phase. (8 marks)

|  |  |
| --- | --- |
| Description | Marks awarded |
| Define | 1 |
| Diagram | 1 |
| Upswing   * Increasing economic growth * Increasing business confidence | 2 |
| Downswing   * Decreasing economic growth * Decreasing business and consumer confidence * Increasing unemployment | 2 |
| Trough   * Low economic growth * High unemployment * Low inflation | 2 |
| Boom   * High economic growth * Economy reaches full capacity | 2 |
| Any valid descriptions |  |

(b) Outline the four components of aggregate expenditure and describe the effects on each component during a business cycle downswing. (12 marks)

|  |  |
| --- | --- |
| Description | Marks |
| Definition of AE | 1 |
| Explanation of the components using examples:  CONSUMPTION – spending by households on goods (durable/nondurable) & services; largest component around 55%; relatively stable  INVESTMENT – around 20-25%; most volatile, includes spending by firms on machinery, construction, residential investment (new housing) & inventories  GOVERNMENT – around 20-25%, spending by govt on goods & services, infrastructure  NET EXPORTS (X-M) – exports of goods & services less imports; can be positive if X> M or negative if M>X; +/-2% | Award max 7  4x2=8 |
| Impacts on each component during each phase   * Upswing: All increase * Downswing: All decrease * Boom: High and stagnant * Trough: Low and stagnant   \*\* Net exports is more dependant on overseas economic growth | 4 |

***End of questions***