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Answers- Year 12 Economics Assess 1 2021

year 11 chem (University of Western Australia)

NAME: ANSWERS   TEACHER

WILLETTON SENIOR HIGH SCHOOL

YEAR 12 ECONOMICS ATECO 2021

ASSESSMENT TASK 1: 40 MARKS (Weighting 7.5%)

Section 1.   Multiple Choice (1 mark each – total 10 marks)

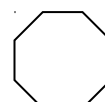Place the best response to each question in the hexagon to the right.

1. Which of the following phases of the business cycle is usually the longest in length?

(a) Boom
(b) Downswing
(c) Trough
(d) Upswing
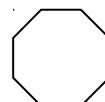
2.   Which of the following indicators will move in-line with the level of current economic activity?

(a) GDP
(b) Share prices
(c) Debt levels
(d) Housing approvals

3. The components of aggregate expenditure (AE) that fluctuate the most are

(a) consumption expenditure and net exports.
(b) net exports and government spending.
(c) consumption expenditure and investment expenditure.
(d) investment expenditure and net exports.
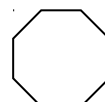
4. The marginal propensity to consume refers to the

(a) the level of consumption as a proportion of total income.
(b) the proportion of any change in income that is spent on consumption.
(c) change in consumptions as a result of higher interest rates.
(d) additional consumption spending on imported goods.

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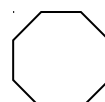
5. The factor that **most** affects household spending and household saving is

(a) taxation.
(b) interest rates.
(c) exchange rates.
(d) income.
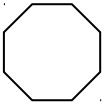
6. An increase in household savings will be **most** likely to cause which of the following?

(a) an increase in national income
(b) an increase in consumption
(c) a decrease in national income
(d) a decrease in unemployment
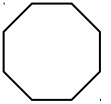
The table below shows the level of consumption at different levels of income.

| Income	Consumption
120	90
140	105
160	120

7. Using the data in the table, which of the following is correct? The marginal propensity to consume is

(a) 0.75 and the multiplier is 4.
(b) 0.5 and the multiplier is 2.
(c) 0.75 and the multiplier is 1.33.
(d) 0.4 and the multiplier is 2.5.
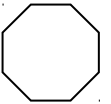
8. Assuming an economy has no government or trade sector then which of the following statements will be true.

(a) As incomes rise the MPC increases and the APS increases.
(b) As incomes rise the MPC remains constant and the APS increases.
(c) As incomes rise the MPC falls and the APS increases.
(d) As incomes rise the MPC falls and the APS remains constant.
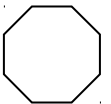
9. If the marginal propensity to consume is 0.8, an increase in investment of $100bn would cause income to

(a) rise by $100bn.
(b) rise by $500bn.
(c) fall by $80bn.
(d) fall by $20bn.

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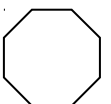
10. This question refers to the aggregate expenditure (AE) model shown below.

AE

45° line

AE2
AE1

Y1   Y2   Real GDP
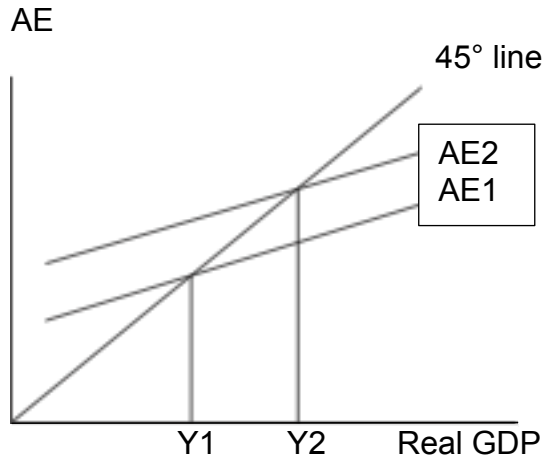
In the AE model, the level of income will rise when spending is

(a) equal to output.
(b) greater than output
(c) less than output.
(d) equal to aggregate expenditure.

END OF SECTION ONE

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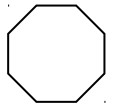
Section 2. Data interpretation and Short Answer (30 marks)

1. Consider the following data

ECONOMIC INDICATORS % change	YEAR 1	YEAR 2	YEAR 3
Consumption	4.5	3.4	3.0
Building Approvals	12.4	5.0	-25.0
New Business Investment	3.6	5.0	0.0
Public Final Demand	5.6	3.0	2.2
Exports	9.2	5.0	6.0
Imports	12.5	4.5	0.0
GDP	4.3	2.8	1.0
CPI	4.5	3.2	2.1
Employment	2.7	2.1	2.0
Unemployment rate (% workforce)	6.3	6.7	6.8
CAD (% of GDP)	-5.3	-3.6	-3.0

(a) Identify an example of a leading, lagging and coincident indicator in the table above.   (3 marks)

Leading indicator   Building approvals, New Business Investment

Lagging indicator   CPI, Unemployment

Coincident indicator GDP

(b) Identify the years that represented the peak and the trough in the business cycle.   (2 marks)

Boom   Year 1

Trough   Year 3

(c) Identify the most volatile economic indicator in the table. Suggest one reason for this.   (2 marks)

Building Approvals   (1)
Decreased from 12.4 in year 1 to -25.0 in year 3.
This is because building investment is a planned investment that depends on consumer confidence which is low during a trough. (1)

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2 (a)   Describe the main features of the largest component of Aggregate
          Expenditure.   (3 marks)

Consumption (1/2)
Most stable (1/2)
Features:
  • Expenditure on non-durable goods such as food, drink etc. (1/2)
    Around 35%
  • Expenditure on durable goods such as furniture, white goods etc. (1/2)
    Around 15%
  • Expenditure on services such as education, transport etc. (1/2).
    Around 50%
  • Use examples/ percentages (1/2)

    (b) Using examples, identify and describe two of **main** factors that affect
        each of the following components of AE.   (6 marks)

Consumption

  • Disposable income
  • Interest rate
  • Consumer expectation
  • Inflation
  • Personal stock of wealth

Any two points fully explained for 2 marks.

Investment

  • Government policy
  • Risk
  • Interest rate
  • Past profits
  • Business expectations

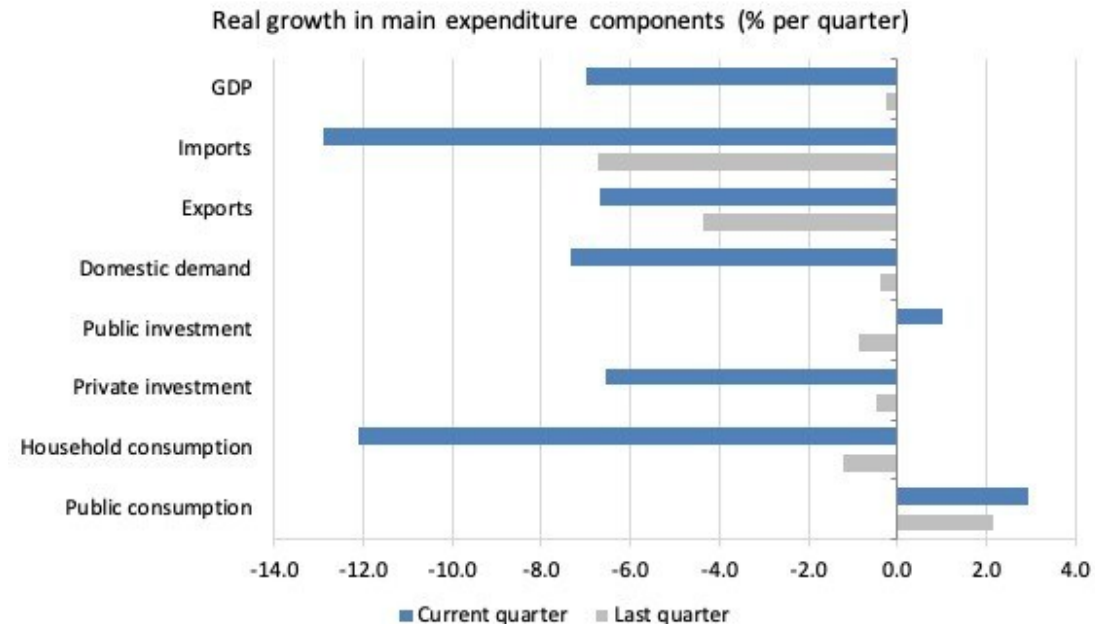Any two points fully explained for 2 marks.

Trade

  • Overseas economic conditions
  • Domestic activity
  • Exchange rate
  • Terms of trade

Any two points fully explained for 2 marks.

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3. Consider the graph below and answer the questions that follow.

The following graph shows the quarterly percentage growth for the major expenditure components in real terms for the Last-quarter 2020 (light bars) and the Current-quarter 2020 (dark bars).

Real growth in main expenditure components (% per quarter)

GDP
Imports
Exports
Domestic demand
Public investment
Private investment
Household consumption
Public consumption

-14.0 -12.0 -10.0 -8.0 -6.0 -4.0 -2.0 0.0 2.0 4.0

■ Current quarter ■ Last quarter

a.   Indicate whether the following sector's contribution was negative or positive to the growth in real GDP in the current quarter.   (4 marks)

Household Sector   Negative   Business Sector   Negative
Government Sector Positive   Trade sector   Positive

Choose 2 of the above sectors and suggest reasons why they made positive or negative contributions to real GDP in current quarter.   (2 marks)

   Household sector:
   • Increased uncertainty
   • Lost jobs
   • Increased savings and reduced spending

   Business sector
   • Businesses closed
   • Lack of confidence and uncertainty
   • Risk in new investments

   Government sector
   • Spent on infrastructure development for COVID
   • Jobseeker and job keeper subsidy
   • Increased spending on healthcare

   Trade sector
   • Increased exports

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- Decreased imports due to lost jobs
- Net exports rose

4.(a) Complete the table below. (2 marks)

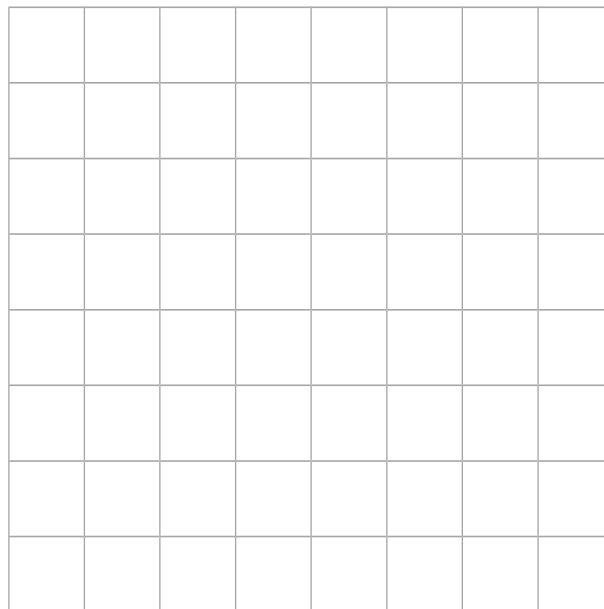| Income	Consumption	Savings	Investment	AE
0	100	-100	120	220
100	180	-80	120	300
200	260	-60	120	380
300	340	-40	120	460
400	420	-20	120	540
500	500	0	120	620
600	580	20	120	700

(1 mark)

(1 mark)

(b)   Plot and label the Aggregate Expenditure schedule on the graph below. (2 marks)

AGGREGATE EXPENDITURE MODEL

AE(C+I)

NOTE:
Must start the AE (C+I) curve from Income level of 220

Real GDP

(1 mark for correct labels and a title, 1 mark for the correct AE curve.)

(c) Using the table and/or graph determine the (3 marks)

(i)   Consumption Function $C = 100 + 0.8Y$

(ii)   Savings Function $S = -100 + 0.2Y$

(iii)   Size of the Multiplier   5

(d) Calculate the change in income that would result from an autonomous increase in investment of 40. (1 mark)

40 X 5 = 200

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