



## *Units 3 and 4 Economics*

### *Practice Exam Question and Answer Booklet*

Duration: 15 minutes reading time, 2 hours writing time

Structure of book:

Section	Number of questions	Number of questions to be answered	Number of marks
A	15	15	30
B	4	4	60
		Total	90

- Students are permitted to bring into the examination room: pens, pencils, highlighters, erasers and rulers.
- Students are not permitted to bring into the examination room: blank sheets of paper and/or white out liquid/tape.
- No calculator is allowed in this examination.

Materials supplied:

- This question and answer booklet of 15 pages.

Instructions:

- You must complete all questions of the examination.
- Write all your answers in the spaces provided in this booklet.

## Section A – Multiple-choice questions

### Instructions

Answer all questions by circling your choice.

Choose the response that is correct or that best answers the question.

A correct answer scores 1, an incorrect answer scores 0.

Marks will not be deducted for incorrect answers.

No marks will be given if more than one answer is completed for any question.

### Questions

#### Question 1

Which one of the following would have a different effect on the overall level of aggregate supply from that of the other three?

- A. a cyclone in Queensland creates widespread shortages of agricultural products
- B. the government announced a \$1.1 billion investment in skills training
- C. the company tax rate is increased from 29 to 30 per cent
- D. oil prices spike as a result of a war in the Middle East

#### Question 2

A purely competitive market is likely to have:

- E. few buyers and sellers
- F. product differentiation
- G. ease of entry and exit
- H. firms which are 'price makers'

#### Question 3

If the RBA implements a contractionary monetary policy, the likely effect on consumer spending and on the household savings ratio would be that

- A. consumer spending falls and the household savings ratio rises
- B. consumer spending rises and the household savings ratio falls
- C. consumer spending falls and the household savings ratio falls
- D. consumer spending rises and the household savings ratio rises

#### Question 4

A decrease in average material living standards in Australia is

- A. not achievable if there has been an increase in non-material living standards
- B. considered to have occurred if nominal GDP and leisure time have decreased
- C. more likely to occur in a period of low levels of unemployment
- D. considered to have occurred if there has been a decrease in Real GDP per capita over time

#### Question 5

Which of the following factors is likely to have an effect on Australia's level of international competitiveness that is different from the other three?

- A. cheap automobile imports from Japan
- B. high domestic levels of inflation
- C. cheap domestic commodity prices relative to the rest of the world
- D. bushfires in Victoria resulting in a decrease in agricultural output

**Question 6**

The Australian Football League increases the price of tickets by 25 per cent, which resulted in average attendances decreasing by 11 per cent.

Based on this data, it could be concluded that there is an

- A. elastic demand
- B. elastic supply
- C. inelastic demand
- D. inelastic supply

**Question 7**

How might a decrease in the rate of economic growth impact on government revenues and outlays?

- A. both progressive taxation receipts and unemployment benefit payments increase
- B. progressive taxation receipts increase and unemployment benefit payments decrease
- C. progressive taxation receipts decrease and unemployment benefit payments increase
- D. both progressive taxation receipts and unemployment benefit payments decrease

**Question 8**

Consider the following Gini coefficient data for a hypothetical economy.

Years	Gini coefficient
2008 - 2009	0.328
2012 - 2013	0.314

- A. The level of inequality has increased between 2008 – 2009 and 2012 – 2013, and the Lorenz Curve will have moved closer to the 45 degree line.
- B. The level of inequality has increased between 2008 – 2009 and 2012 – 2013, and the Lorenz Curve will have moved further way from the 45 degree line.
- C. The level of inequality has decreased between 2008 – 2009 and 2012 – 2013, and the Lorenz Curve will have moved further away from the 45 degree line.
- D. The level of inequality has decreased between 2008 – 2009 and 2012 – 2013, and the Lorenz Curve will have moved closer to the 45 degree line.

**Question 9**

If Australia's interest rates rise relative to overseas interest rates, the most likely effect would be

- A. a rise in capital inflow and a depreciation of the Australian dollar.
- B. a rise in capital inflow and an appreciation of the Australian dollar.
- C. a fall in capital inflow and a depreciation of the Australian dollar.
- D. a fall in capital inflow and an appreciation of the Australian dollar.

**Question 10**

Which one of the following is the most appropriate macroeconomic policy mix if the Australian economy is experiencing high rates of economic growth and falling levels of unemployment?

- A. a decrease in taxation and the sale of government securities by the RBA
- B. an increase in taxation and the purchase of government securities by the RBA
- C. a decrease in government spending and the sale of government securities by the RBA
- D. an increase in government spending and the purchase of government securities by the RBA

**Question 11**

The most likely effect of a decreased rate of inflation in Australia is

- A. a reduction in Australia's international competitiveness.
- B. a decrease in business confidence.
- C. the RBA implementing a contractionary monetary policy
- D. an improvement in equity in income distribution

**Question 12**

Which of the following policy-mix options is likely to be implemented in an effort to decrease demand inflationary pressures in the economy?

- A. an increase in personal income tax rates and an increase in the cash interest rate
- B. a decrease in personal income tax rates and an increase in the cash interest rate
- C. a decrease in personal income tax rates and a decrease in the cash interest rate
- D. an increase in personal income tax rates and a decrease in the cash interest rate

**Question 13**

If the Australian Open in Melbourne causes disruption to local traffic and promotes the city of Melbourne overseas, economists will refer to these examples respectively of

- A. a negative externality and a positive externality
- B. a positive externality and a negative externality
- C. a public good and information asymmetry
- D. information asymmetry and a public good

**Question 14**

If A\$1 buys US\$1, and the Australian dollar appreciates by 10 per cent (%) against the US dollar, then after the appreciation A\$1 will buy

- A. US\$0.80
- B. US\$0.90
- C. US\$1.10
- D. US\$1.20

**Question 15**

A strong economic recovery in China is most likely to have which of the following effects on the Australian economy?

- A. a decrease in commodity exports
- B. a decrease in imports
- C. a decrease in the unemployment rate
- D. a decrease in interest rates

## Section B – Written responses

### Instructions

Answer all questions in the spaces provided.

In all questions where a numerical answer is required an exact value must be given unless otherwise specified.

In questions where more than one mark is available, appropriate working must be shown.

Unless otherwise indicated, the diagrams in this book are not drawn to scale.

### Questions

#### Question 1

- a. Describe one example of a budgetary policy action, implemented over the past two years, which may have operated to achieve a more equitable distribution of income.

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4 marks

- b. Describe one example of a budgetary policy action, implemented over the past two years, which might have operated to improve Australia's international competitiveness.

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4 marks

- c. Equity in income distribution and full employment are considered key economic goals for the Australian economy. Discuss one impact on living standards of failing to meet the goal of equity in income distribution and one impact on living standards of failing to meet the goal of full employment.

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Impact 2:

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4 marks

**Total: 12 marks**

**Question 2**

- a. Explain how the RBA uses open market operations to increase interest rates.

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4 marks



- b. Evaluate the effectiveness of monetary policy in achieving domestic economic stability over the last three years.

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8 marks

c. Outline two economic consequences of an ageing population in Australia.

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4 marks

- d. Explain how one aggregate supply policy and one aggregate demand policy might be used to reduce the effects of an ageing population.

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4 marks

Total: 20 marks

**Question 3**

- a. The Australian Government has stated it will restore the budget to surplus in coming years. Outline the economic rationale for this.

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4 marks

- b. Explain one government policy action that might be used to achieve the goal of restoring the budget to surplus in coming years.

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2 marks

- c. 'Economics is concerned with the basic problem of scarcity.'

Explain what is meant by scarcity.

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2 marks

- d. In the competitive market economy of Australia, explain how the price mechanism allocates resources.

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4 marks

**Total: 12 marks**

**Question 4**

- a. Using one specific example, define market failure.

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2 marks

- b. Explain how the government might intervene in a competitive market economy to correct the market failure discussed in part a.

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4 marks

c. Explain how two microeconomic reform policies might improve external stability.

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4 marks

d. Outline one factor which may have contributed to the slight drop in the value of the Australian dollar over the past year.

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2 marks

- e. Discuss why one group in society may benefit from the Australian dollar trading at a lower value and why one group may suffer from this drop.

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4 marks

**Total: 16 marks**

End of Booklet

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