

**VCE Unit 1 Economics**

**EXAMINATION**

**Semester 1 2020**

**Question Booklet**

**STUDENT NAME:**

**TEACHER(S):** Ms Hubbard and Ms Ferguson-Brown

**TIME ALLOWED: Reading time 10 minutes**

**Writing time 90 minutes**

**INSTRUCTIONS**

Print your name in the space provided above  
Students are only permitted to use pens, pencils, rulers, sharpeners, erasers and highlighters  
Students are NOT permitted to use notes, their own blank pieces of paper, whiteout liquid and/or tape.  
All written responses must be in English  
EAL students are permitted to use a dictionary.

**STRUCTURE OF BOOKLET / MARKINGSCHEME**

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| Exam Section | Number of questions to be answered | Total marks |
| Section A – Multiple Choice  Section B – Introduction  Section C – Consumer and Business Behaviour  Section D – Decision Making in Markets | 15  2  2  3 | 15  15  15  15 |

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**Section A: Multiple-choice questions (15 marks)**

**Instructions for Section A**

Answer **all** questions in pencil on the answer sheet provided for multiple-choice questions.

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

Marks will **not** be deducted for incorrect answers.

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

Question 1

Which one of the following statements is correct?

**A.** The needs and wants of economic agents can be defined as the goods and services that are necessary for their survival.

**B.** The needs of economic agents can be defined as the basic goods and services that are necessary for their survival.

**C.** The core wants of individuals are food, clothing and shelter.

**D.** Needs and wants are unlimited and easily satisfied.

Question 2

Which one of the following questions about resource allocation is **not** one of the three basic economic questions?

**A.** Where to produce?

**B.** How to produce?

**C.** For whom to produce?

**D.** What and how much to produce?

Question 3

If there is an increase in demand for burgers, what is likely to happen to the equilibrium price and quantity of burgers?

**A.** price will increase, quantity will increase

**B.** price will increase, quantity will decrease

**C.** price will decrease, quantity will increase

**D.** price will decrease, quantity will decrease

Question 4

Considering the traditional economic viewpoint of consumer behaviour, which one of the following assumptions is **incorrect**?

**A.** Consumers make consistently rational decisions.

**B.** Consumers make decisions based on their self-interest.

**C.** Consumers purchase products they have a preference for, thereby maximising their utility.

**D.** Consumers maximise utility by purchasing products regardless of their budget constraints.

Question 5

Consumer sovereignty refers to:

**A.** the principle that consumers determine how products are produced.

**B.** the principle that businesses determine how products are produced.

**C.** the principle that consumers primarily determine what will be produced.

**D.** the principle that consumers and producers determine what will be produced.

Question 6

The diagram below illustrates three possible demand curves for apples.

Price ($) per apple

A

C

B

E

D1

D3

D2

Quantity (apples)

Assume that apples and oranges are substitutes. If the price of oranges increases, which of the following movements represents the effect on the market for apples?

**A.** A to C

**B.** A to B

**C.** B to E

**D.** none of the above

Question 7

Which one of the following would **not** be considered a non-price factor affecting the supply of flowers?

**A.** a drought in flower-growing regions of Australia.

**B.** the cost of inputs used to produce flowers.

**C.** the technology used to produce flowers.

**D.** the price of flowers.

Question 8

Which one of the following is most likely to increase non-material living standards for Australians?

**A.** higher incomes

**B.** higher literacy rates

**C.** increased levels of production

**D.** increased levels of expenditure

Question 9

The value of the next best alternative forgone when a decision is made refers to:

**A.** needs and wants.

**B.** opportunity cost.

**C.** relative scarcity.

**D.** trade-off.

Question 10

A recent Health Australia report argued that there is a strong link between the consumption of red meat and heart disease. At the same time, Australian consumers’ incomes decreased. What is likely to be the combined effects of these two events on the market for red meat?

**A.** a decrease in the equilibrium price and an increase in the equilibrium quantity

**B.** an increase in the equilibrium price and decrease in the equilibrium quantity

**C.** an increase in both the equilibrium price and the quantity

**D.** a decrease in both the equilibrium price and quantity

Question 11

When choosing to buy something very expensive, such as a car, people are more likely to spend more on added extras, such as paint protection, than in the case where people are buying just paint protection. In behavioural economics, this would be an example of:

**A.** overconfidence bias.

**B.** anchoring effect.

**C.** status quo bias.

**D.** vividness.

Question 12

Which one of the following is a positive economic statement?

**A.** Economics is a fun and enjoyable subject to study.

**B.** The government should enforce a quota on gender equality in all workplaces.

**C.** The retirement age should be raised to 75 to combat the issue of a falling fertility rate in Australia.

**D.** An increase in disposable incomes is likely to lead to a rise in demand for fashion clothing brands, such as Nike and Adidas.

Question 13

Identify a longer term trade-off of the construction of a new freeway connecting Melbourne’s eastern and western suburbs that could be expected to encourage more vehicle travel.

**A.** less revenue available to increase pensions in the current budget

**B.** the value of the inconvenience to road users during construction

**C.** more extreme weather events associated with climate change

**D.** high costs of building materials and wages for the workers

Question 14

Businesses seek to incorporate the latest advances in technology into their production process for many reasons. Which one of the following statements is **incorrect** in relation to why firms might incorporate technology into their production?

**A.** Producers can pass on lower costs of production to customers in the form of lower prices, therefore sacrificing profit margins.

**B.** Producers can pass on lower costs of production to customers in the form of lower prices.

**C.** Technology can lower the average cost of production.

**D.** Technology can improve rates of efficiency.

Question 15

Consider the following supply and demand diagram.

S1

Price

S2

D

Quantity

Q1

Q2

In the market for steel, which one of the following scenarios would explain the shift in supply from S1 to S2?

**A.** an increase in the availability of natural resources

**B.** an increase in the cost of producing the good

**C.** an increase in incomes

**D.** both A and C

**Section B: Introduction Short answer**

Question 1 (7 marks)

**a.** Explain the link between relative scarcity and opportunity cost. 2 marks

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**b.** Economic activity can be illustrated through the circular flow model. Construct a fully labelled two-sector flow model to demonstrate how it operates. 2 marks

**c.** With reference to the purpose of economic activity, discuss the extent to which economic activity influences living standards. In your answer, refer to material and non-material living standards.

3 marks

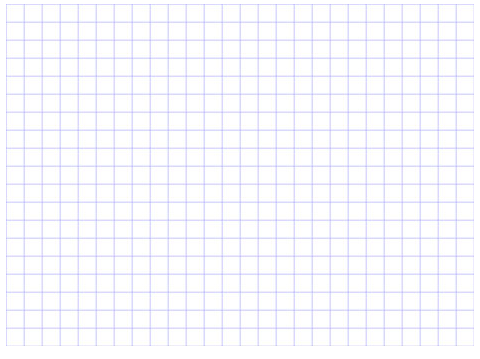
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**Question 2 (8 marks)**

**a.** Using the following information, plot the production possibility frontier/curve (PPF) of a hypothetical economy—Country A—that can only produce two goods: sugary soft drinks and bananas.

4 marks

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|  | **A** | **B** | **C** | **D** | **E** | **F** | **G** | **H** |
| Bananas (tonnes) | 500 | 460 | 420 | 400 | 350 | 250 | 100 | 0 |
| Sugary soft drinks (megalitres) | 0 | 50 | 80 | 150 | 280 | 350 | 380 | 400 |



**b.** Calculate the opportunity cost of the economy changing its production from Combination B to Combination C. 1 mark

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**c.** Using the PPF diagram in Q2 explain what is meant by an ‘underutilisation of resources’

3 marks

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**SECTION C: AOS1 - Consumer and Business Behaviour**

**Australians scrap over toilet rolls amid coronavirus panic buying**

The COVID-19 pandemic has created a great deal of uncertainty for Australian households and as a consequence consumers have flocked to supermarkets to buy toilet paper.

As word quickly spread via social media, panic-buying increased across Australia amid fears that the pandemic will accelerate, leaving families trapped inside their homes with limited supplies.

On Saturday, inside a Melbourne Woolworths supermarket, toilet paper shelves were completely empty, despite the store rationing to one packet the number each shopper could buy.

As two employees emerged with a full pallet of toilet rolls, shoppers rushed to grab their pack. "People are so ridiculous!! It's no worse than flu season yet they're acting like it's the zombie apocalypse," said one shopper. But some are benefiting. Sales revenue for Coles Supermarket rose to $8.23 billion - up 13.8 per cent on the same time last year - as shoppers stockpiled toilet paper and other groceries.

However, Coles also experienced higher costs as a result of the company's extra COVID-19 spending. This includes paying staff for longer hours as well as employing extra staff members to help with increased customers. There will also be increased store cleaning costs. Some stores are price gouging consumers by charging very high prices. One Sydney store “Nice & Cheap” was recorded selling a 30-pack of toilet rolls for $100 in early April. This has prompted consumer advocacy group CHOICE to launch a petition asking the government to draft laws to end such profiteering by businesses.

**Question 1 (3 marks)**

**Bounded rationality is the idea that consumers’ ability to make rational decisions is compromised by various factors. Because consumer decision making is limited (bounded), they can make decisions that allow biases to influence their decision making**

1. **Using information in the case study explain the bias that is influencing consumer behaviour when purchasing toilet rolls (2 Marks)**

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1. **Define bounded willpower (1Mark)**

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**Question 2 (4 marks)**

1. **Using information in the case study explain one economic factor that is influencing the economic decisions made by consumers. (2 Marks)**

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1. **Using information in the case study explain one negative incentive that would influence consumer behaviour regarding the purchase of toilet rolls. (2 Marks)**

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**Question 3 (8 marks)**

1. **Businesses main motivation is to maximise their profits. This is the traditional viewpoint of businesses in the economy. To maximise profit a business must either maximise revenue and/or minimise costs.**

**Using information from the case study explain how Coles Supermarket can maximise profit. (2 Marks)**

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1. **Explain how the imposition of government penalties would affect “Nice & Cheap’s” business decision making. (2 Marks)**

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1. **While businesses primary goal is to maximise profit, some businesses will also pursue secondary goals. Using information from the case study, outline in the table how a business in the case study currently does or potentially could achieve two additional secondary goals. (4 Marks)**

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| **Secondary Goal** | **Outline** |
| **Sustainability** |  |
| **Community Involvement** |  |
| **Innovation** |  |
| **Research and Development** |  |

**SECTION D: AOS2 - Decision making in Markets**

**Chocolate Market Stronger as Price of Cocoa Falls**

A bumper crop of cocoa beans means a fall in the price of cocoa beans in 2020. In February Chocolate producers were paying US$ 2.70 per kg for Cocoa beans; however, by May the price has fallen to US$2.24 per kg. Chocolate producers are delighted by this recent fall in the price of cocoa beans.

In Europe, the biggest chocolate-consuming region, chocolate producers are likely to lower the price in the coming months to entice buyers. Cadbury have already reduced the price of the 200gm block of dairy milk from a retail price of $4.20 to $3.80.

Chocolate producers such as Cadbury and Lindt may ramp up production of chocolate because lower prices for cocoa beans has led to better-than-anticipated European and Asian [grindings](https://www.bloomberg.com/news/terminal/Q96V06T0G1L9) (where cocoa beans are turned into products used in chocolate bars). This suggested that demand for chocolate may have proved fairly resilient to the coronavirus crisis.

There are already signs that demand was holding as lockdowns closed some retail outlets. Chocolate companies like Nestle SA and Mondelez International Inc have reported ongoing sales and are optimistic about confectionery demand remaining strong. After all when people feel down, what better than to binge on chocolate.

**Question 1 (3 marks)**

1. State the type of market structure that best describes the **Chocolate Market**.

1 mark

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1. **Explain** two characteristics of the market structure identified in question 1a.

2 marks

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**Question 2 (8 marks)**

1. Using data in the case study, draw a correctly labelled diagram that shows the change in the **Chocolate Market** over the last year. 3 marks
2. With reference to the diagram, explain why “chocolate producers are likely to lower the price” 5 marks

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**Question 3 (4 marks)**

1. Define supply. 1 mark

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“A bumper crop of cocoa beans has increased the supply of cocoa beans causing the price of cocoa beans to fall from US$ 2.70 per kg to US$2.24 per kg”. As a result of the fall in price of cocoa beans resources have been reallocated into the market for cocoa beans.

1. Is the following claim correct? (Circle the correct answer): 1 mark.

“as a result of the fall in price of cocoa beans resources have been reallocated into the market for cocoa beans”

YES

NO

1. Explain how the fall in the relative price of chocolate would lead to a reallocation of resources in the chocolate market. 2 marks

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