



PERTH MODERN SCHOOL

Exceptional schooling. Exceptional students.

INDEPENDENT PUBLIC SCHOOL

Examination, 2021

Question/Answer Booklet

ECONOMICS

Unit 1

Semester 1, 2021

Student Number: In figures

--	--

--	--	--

--	--	--

In words:

Time allowed for this paper

Reading time before commencing work: ten minutes

Working time for paper: two hours

Materials required/recommended for this paper

To be provided by the supervisor

This Question/Answer Booklet

Extended Response 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 ATAR 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
Section One: Multiple-choice	18	18	25	18
Section Two: Data interpretation / Short response	2	2	50	24
Section Three: Extended response	2	1	45	20
			Total:	62

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.

Section Two: Write your answers in this Question/Answer booklet.

Section Three: Write your answers in the Extended Response 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. 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.

Section One: Multiple Choice**(18 Marks)**

This section has **18** questions. Answer **all** questions on the separate Multiple-choice Answer Sheet.

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.

Suggested working time: **25** minutes.

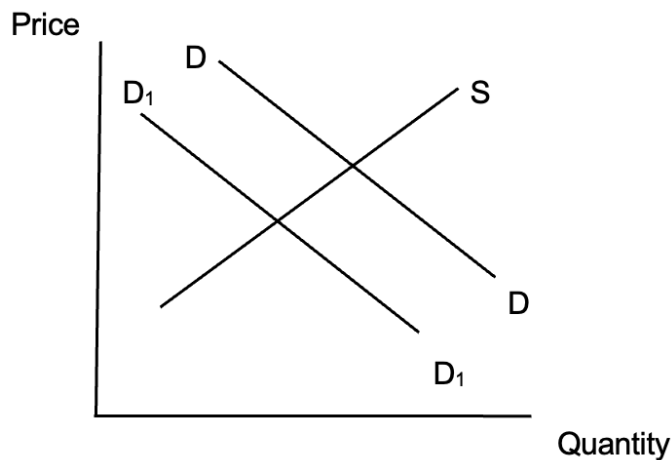
1. The factor market is where households provide firms with
 - (a) labour and receive profit.
 - (b) goods and services and receive income.
 - (c) resources and receive goods and services.
 - (d) resources and receive income.

2. A freely operating price mechanism will result in
 - (a) an efficient allocation of scarce resources.
 - (b) stable prices in markets.
 - (c) greater equality of real incomes due to lower prices.
 - (d) higher profits and greater government taxation revenue.

3. The Law of Supply suggests that the
 - (a) quantity produced will expand as price falls.
 - (b) price will rise when there is an increase in quantity supplied.
 - (c) quantity supplied will expand when there is a price rise.
 - (d) price will fall when there is a decrease in quantity supplied.

4. If a shortage exists in a market, it can be predicted that
 - (a) the price will rise.
 - (b) the price will fall.
 - (c) producers will decrease supply.
 - (d) demand will expand.

5. The following diagram illustrates the market for primary school level education.



The shift in demand from D to D1 is best explained by

- (a) a decrease in the number of young families.
 - (b) an increase in government spending on education.
 - (c) a decrease the availability of primary school teachers.
 - (d) an increase in government spending on hospitals rather than schools.
6. Which of the following would **not** result in a shift to the right of the supply curve?
- (a) Cheaper raw materials used in production
 - (b) Higher wages paid to workers
 - (c) Higher profits encourage other producers to enter the market.
 - (d) An improvement in the relevant production technology
7. Advertising is used by competitive firms to
- (a) shift the demand curve to the left and make it more elastic.
 - (b) shift the demand curve to the left and make it more inelastic.
 - (c) shift the demand curve to the right and make it more elastic.
 - (d) shift the demand curve to the right and make it more inelastic.
8. What would be the **most likely** reason for total revenue rising when a firm increased the price it charged?
- (a) The good was a very expensive luxury item.
 - (b) Consumers had time to adjust their spending patterns.
 - (c) The good had very few substitutes.
 - (d) Firms were easily able to access stocks in warehouses.

9. If the price elasticity of demand for a good is 1.9 then

- (a) a reduction in the price will result in a relatively weak demand response.
- (b) a price rise will result in an increase in total revenue.
- (c) a price rise will result in an increase in supply.
- (d) an increase in total revenue is likely to result from a reduction in price.

10. Which of the following is an example of price discrimination?

- (a) Firms charge lower prices for customers with inelastic demand.
- (b) Firms charge higher prices for customers with elastic demand.
- (c) Firms charge higher prices for customers with inelastic demand.
- (d) Firms do not change the price regardless of market conditions.

11. If the price of Tesla shares rises from \$650 to \$700 and this causes sellers to offer 5% more shares for sale than in the previous day's trading. We can therefore assume that over this price range supply is

- (a) relatively inelastic with coefficient of 0.65
- (b) relatively elastic with a coefficient of 1.42
- (c) relatively inelastic with a coefficient of 0.1
- (d) relatively elastic with a coefficient of 1.54

12. If supply is perfectly inelastic and demand decreases then the price will

- (a) fall and the quantity is unchanged.
- (b) rise and the quantity is unchanged.
- (c) fall and the quantity will rise.
- (d) rise and the quantity will fall.

13. Deregulation increases

- (a) the control of governments over the market place.
- (b) the 'red tape' that enables markets to thrive.
- (c) the power of market forces.
- (d) the responsibility of government to achieve market outcomes.

14. Collusion by firms is anti-competitive behaviour because it involves

- (a) smaller firms merging to reduce competition in the market.
- (b) agreements on prices reducing competition and forcing consumers to pay higher prices.
- (c) a dominant firm under-pricing in order to drive competitors out of the market.
- (d) the market being divided by agreements amongst firms to avoid competition.

15. A good that is _____ and _____ is a _____.

- (a) rival; excludable; private good
- (b) rival; excludable; public good
- (c) non-rival; excludable; public good
- (d) rival; non-excludable; private good

16. Imposing a tax on a product with a negative production externality will lead to a

- (a) reduction in price and an increase in quantity.
- (b) rise in the price and a decrease in quantity.
- (c) rise in the price and an increase in quantity.
- (d) reduction in price and a decrease in quantity.

17. Vertical equity implies that

- (a) people on lower incomes should pay a higher rate of tax.
- (b) people on higher incomes should pay a higher rate of tax.
- (c) people on similar incomes should pay the same rate of tax.
- (d) the government should equalise income for all people.

18. A price ceiling is a

- (a) maximum price in the market and benefits producers.
- (b) minimum price in the market and benefits producers.
- (c) maximum price in the market and benefits consumers.
- (d) minimum price in the market and benefits consumers.

End of Section 1

**This page has been left blank intentionally.
Move on to the next page.**

Section Two: Data interpretation/Short response**(24 Marks)**

This section contains **two (2)** 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: **50** minutes.

Question 19**(12 marks)****Covid-19 concerns drive up the price of the second-hand cars**

Cashed-up consumers scared of using public transport due to the coronavirus have driven used car prices up almost 50 per cent since the pandemic started.

Data compiled by Moody's Analytics and Datium Insights shows just as the market for toilet paper and pasta was up-ended by measures to stop the spread of the coronavirus, demand for second-hand cars has accelerated.

The supply of second-hand cars is also down. Leases and fleets have had fewer vehicles being sold back, in part because people have not been driving their cars and putting kilometres on the odometer.

Data from the Australian Bureau of Statistics on Monday confirmed how few people were using public transport. Before March, 15.4 per cent of people said they used public transport "most days". In October, this had fallen to just 3.9 per cent.

It's not just second-hand cars that have caught the interest of consumers. Sales of road motorbikes were 8.2 per cent higher in the recently completed September quarter compared to a year ago, while off-road bike sales were almost 40 per cent higher. Mr Brisson said as the economy recovered, prices of used vehicles should begin to normalise.

Adapted from: <https://www.smh.com.au/politics/federal/second-hand-cars-with-that-new-car-price-20201116-p56f01.html>

- (a) State the change in the percentage of people who used public transport from March to October. (1 mark)

- (b) With reference to the extract, describe the relationship between second-hand cars and public transport. (3 marks)

- (c) Other than the availability of substitutes, explain two factors that would influence the price elasticity of demand of public transport. (3 marks)

This image shows a blank sheet of white paper with horizontal ruling lines. The lines are evenly spaced and extend across the width of the page. There are no margins, text, or other markings on the paper.

Question 20

(12 marks)

Calls to phase out fossil fuel subsidies after speculation about net-zero emissions target

By political reporter *James Glenday*

Fossil fuel subsidies have cost state, territory and federal budgets roughly \$10.3 billion in 2019, or \$19,686 a minute, according to a new report from The Australia Institute.

The progressive think tank says the \$7.84 billion allocated for the fuel credit scheme in the Federal Budget alone. It also has calculated state governments have contributed some \$1.2 billion to coal, oil and gas companies by helping reduce the costs of exploration, improving ports, railways and power stations.

"It's not just important for Australia to take action on climate change but some of this money could be going to schools, or hospitals or issues voters are really worried about." The total cost of fossil fuel subsidies has been a contentious issue over the past decade.

An International Monetary Fund report said Australia spent in 2019 some US\$29 billion (\$37.4 billion) in subsidies, though that paper included the estimated cost of things like the environmental and social price of pollution and greenhouse gas emissions.

Posted 26 April 2021.

- (a) As stated in the article, identify the type of subsidy used by the Government. (1 mark)

- (b) Account for the difference in the cost of the fossil fuel subsidy by The Australia Institute and the International Monetary Fund. (1 mark)

- (c) As stated in the article, identify the opportunity cost of the fossil fuel subsidy. (1 mark)

(d) Demonstrate and explain how a subsidy can cause market inefficiency. (5 marks)

[illegible]

- (e) Explain two policy options available to the government to internalise the externality associated with the fossil fuel industry. (4 marks)

End of Section 2

Section Three: Extended response**(20 Marks)**

This section contains **two (2)** questions. Answer **one (1)** question. Write your answer in the Extended Response Answer booklet and number your answer clearly.

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: **45** minutes

Question 21**(20 marks)**

- a) Discuss two non-price factors affecting demand and two non-price factors affecting supply. Explain how changes in these factors will affect market equilibrium.
(12 marks)
 - b) Using appropriate models, explain the impact of imposing indirect taxes on relatively inelastic products.
(8 marks)
-

Question 22**(20 marks)**

- a) Explain the concept of efficiency and with reference to a diagram, explain why efficiency is maximised in a highly competitive market.
(8 marks)
 - b) With the use of examples, distinguish between public goods and common resources and explain why they are associated with market failure. Discuss policy options available to the government to address these two causes of market failure.
(12 marks)
-

End of Questions

Supplementary page

Question number: _____

[illegible]

Supplementary page

Question number: _____

[illegible]

Supplementary page

Question number: _____

[illegible]

Supplementary page

Question number: _____

[illegible]

Supplementary page

Question number: _____

[illegible]