

**YEAR 11 ATAR Course Examination**

**Question/Answer Booklet**

**ECONOMICS Unit 1 and 2**

**Semester 2 2020**

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**Student Number: In figures**

**In words:**

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**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 Extended Answer booklets

***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 |
| Section One  Multiple-choice | 24 | 24 | 30 | 24 |
| Section Two  Data interpretation / Short answer | 3 | 3 | 70 | 36 |
| Section Three  Extended answer | 4 | 2 | 80 | 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 Extended Answer 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.

**Section 1: Multiple-choice (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. Consider the market for mobile phones. Which of the following events would cause a leftward shift of the demand curve for mobile phones?
2. An increase in the price of mobile phones.
3. A decrease in the quantity demanded of mobile phones.
4. Innovation in phone features, such as video messaging.
5. Publication of a study that suggests using mobile phones can cause disease.
6. What will happen in the rice market if buyers are expecting higher prices in the near future?
7. The demand for rice will increase.
8. The demand for rice will decrease.
9. The supply of rice will increase.
10. The supply of rice will decrease.
11. In the table shown below, if the price were $8,

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| **Price ($)** | **Quantity demanded** | **Quantity supplied** |
| 10 | 10 | 100 |
| 8 | 20 | 80 |
| 6 | 30 | 60 |
| 4 | 40 | 40 |
| 2 | 50 | 20 |

1. a surplus of 30 units would exist and price would tend to fall.
2. a surplus of 60 units would exist and price would tend to rise.
3. a surplus of 60 units would exist and price would tend to fall.
4. a shortage of 30 units would exist and price would tend to rise.
5. If goods A and B are close substitutes, a decrease in the price of good A would cause the
6. demand curve for good A to shift to the right.
7. demand curve for good A to shift to the left.
8. demand curve for good B to shift to the right.
9. demand curve for good B to shift to the left.
10. When a man is prepared to pay $20 for a shirt but only pays $15, his consumer surplus is
11. $5
12. $15
13. $20
14. $35
15. The degree of price elasticity of demand is important to producers because it reveals how
16. much of the product will be supplied at different prices.
17. responsive quantity demanded is to a change in price.
18. responsive demand for a product is to advertising or promotional campaigns.
19. responsive quantity demanded is to a change in the level of consumer income.
20. If a rightward shift of the supply curve leads to a 6 percent decrease in the price and a 5 percent increase in the quantity demanded, the price elasticity of demand is
21. 0.33
22. 0.60
23. 0.83
24. 1.20
25. An unregulated market will tend to over-allocate resources towards the production of
26. public goods.
27. government services.
28. goods that cause negative production externalities.
29. services that convey positive production externalities.
30. Lighthouses are considered public goods because their use is \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ in consumption and non-payers \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ be excluded from using them.
31. non-rival; can
32. non-rival; cannot
33. rival; can
34. rival; cannot
35. A government wishes to raise the incomes of farmers without changing the price of food to consumers. Which is the preferred policy to achieve this objective?
36. A price ceiling below the market price for food
37. A price floor above the market price for food
38. A release of government food stocks onto the market
39. A payment of a subsidy to farmers to produce food
40. Which of the following represents an increase in leakages from the circular flow of income?

(a) An increase in government spending on anti-smoking campaigns

(b) An increase in spending on imports of cars

(c) An increase in building projects designed to expand university capacity

(d) An increase in wages paid to government employees

1. Which of the following pairs of events would indicate that an economy is starting to recover from a trough?
2. Rising interest rates and lower numbers of job advertisements
3. Mining investment and hotel occupancy rates are low
4. Inflationary pressure and excess capacity in manufacturing industry
5. Falling levels of inventory and rising retail sales
6. Which of the following accurately reflects investment spending?
7. Replacement of old machinery
8. Transfer of ownership of an existing factory
9. Purchase of shares in an overseas company
10. Investment into mutual funds

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| Period | CPI |
| June 2019 | 114.8 |
| Sept 2019 | 115.4 |
| Dec 2019 | 116.2 |
| March 2020 | 116.6 |
| June 2020 | 117.0 |

1. Refer to the data in the table right, which shows quarterly Consumer Price Index (CPI) numbers for Country X.

As at June 2020, the annual rate of inflation stood at \_\_\_\_\_\_\_\_; and the quarterly rate was \_\_\_\_\_\_\_\_\_. (rounded to one decimal place)

1. 1.2%; 1.1%
2. 1.4%; 0.3%
3. 1.9%; 0.3%
4. 2.2%; 0.3%
5. If the population is 20 million, of which 10 million are employed and 1 million are unemployed, then the unemployment rate would be
6. 5%
7. 9%
8. 10%
9. 50%
10. An increase in online shopping by customers has reduced the level of employment in ‘bricks and mortar’ department stores, even during the Christmas holiday season. Which term describes this kind of unemployment?

(a) Frictional

(b) Cyclical

(c) Seasonal

(d) Structural

1. In 2018-2019, Australia’s top three exports were
2. iron ore, coal and passenger motor vehicles
3. iron, coal and education
4. iron ore, gold and wheat
5. iron ore, coal and natural gas
6. 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

1. Aid provided by one country to another country will be recorded in which component of the balance of payments of the receiving country?
2. Primary income
3. Secondary Income
4. Capital account
5. Other investment
6. Historically, Australia usually has a \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_, best explained by \_\_\_\_\_\_\_\_\_\_\_\_\_\_.
7. current account surplus; strong commodity exports
8. current account surplus; inflows of foreign investment
9. current account deficit; the need to import professional services
10. current account deficit; an outflow of investment income
11. Other things being equal, which of the following is most likely to increase if Australia’s major trading partners experience an economic slowdown?
12. Australia’s GDP growth
13. Demand for Australia’s exports
14. Australia’s unemployment rate
15. Australia’s inflation rate
16. Real GDP rose from $250b in Year 1 to $255b in Year 2. Over the course of the year, population rose 2.1%. On these figures, we would conclude that
17. real per capita income rose.
18. real per capita income fell.
19. there was no change in welfare.
20. the economy had gone into a recession.
21. In a proportional tax system, the tax rate will \_\_\_\_\_\_\_\_\_\_\_\_ as income increases.
22. increase
23. decrease
24. remain constant
25. fluctuate
26. The diagram below shows the Lorenz curves for Country *A* and Country *B*. All other things being equal, which of the following is true?

![Diagram

Description automatically generated]()

(a) Country A has a lower Gini coefficient than country B.

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

(c) Country A’s Lorenz curve will move closer to country B’s Lorenz curve if country A’s top marginal income tax rate is increased.

(d) Country B’s Lorenz curve will move closer to country A’s Lorenz curve if country B’s top marginal income tax rate is decreased.

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***End of Section One***

**Section Two: Data interpretation/Short answer (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)**

**Why orange juice prices are soaring on global markets**

The future price of orange juice has spiked by more than 20% this month as consumers look for healthy products during the coronavirus pandemic.

While demand has risen, supply has been hit as producers struggle to export goods due to transport restrictions. This has caused a rise in the so-called "futures" price of orange juice, which indicate its cost for delivery in the coming months.

"The Covid19 outbreaks are hitting both the supply and demand for orange juice. The immune-boosting properties are the demand side attraction while there are simply not enough tanker spaces, with airlines not flying, to bring the product to markets," said Stephen Innes, chief global market strategist at broker AxiCorp.

Adapted from: www.bbc.com/news/technology-52030133

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| (a) | Define demand. | (1 mark) |
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| (b) | State the change in the “futures” price of orange juice. | (1 mark) |
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| (c) | Using your own understanding, state and explain the price elasticity of demand for orange juice. | (4 marks) |
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| (d) | Demonstrate and explain the change in the price of orange juice. | | (6 marks) |
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**Question 26 (12 marks)**

Table 1. Australian economic indicators

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|  | **July 2018** | **July 2019** | **July 2020** |
| **GDP Growth Rate (%)** | 3.3 | 1.6 | -6.3 |
| **Inflation rate (%)** | 2.1 | 1.6 | -0.3 |
| **Unemployment Rate (%)** | 5.3 | 5.2 | 7.5 |
| **Consumer Confidence (%)** | 106.1 | 96.5 | 87.5 |
| **Exports (AUD)** | 36.76 bn | 43.27 bn | 34.07 bn |
| **Imports (AUD)** | 34.88 bn | 35.39 bn | 29.42 bn |

*Source: www.tradingeconomics.com*

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| (a) | Describe the trend in the GDP growth rate from July 2018 to July 2020. | (1 mark) |
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| (b) | From the data in table 1, suggest the phase of the business trade cycle that Australia is in during July 2020. | (1 mark) |
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| (c) | Explain the factors that affect net exports. | (4 marks) |
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| (d) | Using appropriate examples, explain possible causes of inflation. | (6 marks) |
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**Question 27 (12 marks)**

**Peaking export boom**

Australia produced its first current account surplus in 44 years in the June quarter, largely on the back of iron ore shipments out of Western Australia. Iron ore accounts for around 30 per cent of Australia's exports by value. A sudden slump in iron ore prices and shipments may point to Australia's export boom hitting its peak.

While the July trade surplus was still a robust $7.2 billion — only bettered by the $8 billion reported in June — the heavy reliance on iron ore to Australia's export effort suggests the recent months' performances may be about as good as it gets in the medium term.

"Looking ahead, given iron ore's weighting in the aggregate export basket and the recent fall in prices, it seems like June's outcome is likely to be a high-water mark for the external sector," JP Morgan's Tom Kennedy said. "This has obvious implications for the balance of payments and is central to our view that the return to current account surplus in 2Q will prove temporary."

Adapted from: https://theconversation.com/after-44-years-of-deficits-weve-a-current-account-surplus-what-went-so-right-122858

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| (a) | State the percentage weighting of iron ore in Australia’s overall exports. | (1 mark) |
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| (b) | Briefly describe the direction of Australia’s trade. | (2 marks) |
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| (c) | State and explain the relationship between the current account and the capital and financial account. | (4 marks) |
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| (d) | Define and explain the components of the Financial account in the Balance of Payments. | (5 marks) |
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***End of Section Two***

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**GO TO NEXT PAGE**

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

This section contains **four (4)** questions. Answer **two (2)** questions. Write your answers in the **separate extended answer booklets provided** and number each 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: 80 minutes.

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

1. Using examples, explain cross price elasticity of demand and income elasticity of demand. (10 marks)
2. Using demand and supply analysis, explain the impact of an increase in the price of tea on the market for both coffee and sugar. (10 marks)

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

1. Demonstrate and explain how positive and negative externalities can lead to market failure. (10 marks)
2. Using examples, discuss the market failure associated with common property resources and the government policy options to correct it. (10 marks)

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

1. Describe how the unemployment rate is calculated and explain the limitations of the official unemployment rate. (10 marks)
2. Explain the costs and benefits of economic growth. (10 marks)

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

1. Using examples, distinguish between proportional, regressive and progressive types of taxation. (10 marks)
2. Using examples, explain how direct and indirect taxes measure against the criteria of equity, efficiency and simplicity. (10 marks)

***End of questions***

**Supplementary writing pages**

Clearly indicate the question number being answered.

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