

Name: _____

Teacher: _____



FORT STREET HIGH SCHOOL

2010
PRELIMINARY COURSE
YEARLY EXAMINATION

Economics

Total Marks – 70

Section I

Total Marks (15)

Attempt Questions 1 – 15

Section II

Total Marks (55)

Attempt Questions 16 – 22

General Instructions

- Reading Time – 5 minutes
- Working Time – 1 ½ hours
- Write using black or blue pen
- Board-approved calculators may be used
- Write your name on the top of this paper and the multiple choice sheet.

This paper **MUST NOT** be removed from the examination room

Section I

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Student Name or Number

15 marks

Attempt Questions 1 – 15

Allow about 20 minutes for this section

1. A characteristic of a market economy is
 - (A) Self interest is the motivating force behind economic behaviour
 - (B) People are rational in their economic behaviour
 - (C) People have perfect information
 - (D) Governments are best at allocating scarce resources

2. Consumer sovereignty is said to operate when
 - (A) the range of goods is most optimal in satisfying unlimited needs and wants
 - (B) consumers are able to purchase any quantity of a good at a given market price
 - (C) resources are allocated into areas of production determined by consumer demands
 - (D) consumers are able to achieve the greatest satisfaction from a limited amount of disposable income

3. A contraction of demand is caused by
 - (A) negative change in market sentiment
 - (B) an increase in the unemployment rate
 - (C) a decrease in the number of consumers
 - (D) an increase in the price of the good.

4. What is the difference between debt and equity financing?
 - (A) Debt financing involves borrowing and equity financing involves issuing shares
 - (B) Debt financing is the buying of shares and equity financing is the selling of shares
 - (C) Debt financing is repaid with interest and equity financing is repaid with debentures
 - (D) Debt financing is the borrowing of funds from banks and equity financing is the borrowing of funds from non-bank financial institutions

The following table shows the labour force data for a nation

Population	15 million
Population employed	8 million
Population not in employment	4 million
Population unemployed and actively seeking work	2 million
Population aged 15 and over	2 million

5. What is the unemployment rate for this nation?

- (A) 17%
- (B) 20%
- (C) 25%
- (D) 33%

6. Which of the following tribunals now determines the minimum wage in Australia?

- (A) The Australian Fair Pay Commission
- (B) Australian Industrial Relations Commission
- (C) Fair Work Australia
- (D) The Workplace Ombudsman

7. Goods that are not necessarily adequately provided by the market mechanism are

- (A) free goods
- (B) private goods
- (B) merit goods
- (D) public goods

8. Which of the following is an example of a negative externality?

- (A) Increased wage costs due to an increase in the minimum wage
- (B) Decreased productivity due to problems associated with external economies of scale
- (C) Increased interest rates due to the RBA's monetary policy
- (D) Increased asthma rates due to factory emissions

9. An industry that is categorised as an oligopoly is **unlikely** to have

- (A) high barriers to entry.
- (B) a number of recognisable brands.
- (C) a high degree of product differentiation.
- (D) a large number of small independent suppliers who are price takers.

10. The cost of borrowing from a financial institution

- (A) is the real interest rate
- (B) is equal to the inflation rate
- (C) decreases as the risk involved decreases
- (D) increases as the risk involved decreases

11. Labour is a “derived demand” means it is

- (A) a function of the pay and working conditions in the organisation
- (B) determined through negotiation between unions and employer associations
- (C) determined from the level of demand for goods and services
- (D) a function of the productive capacity of firms

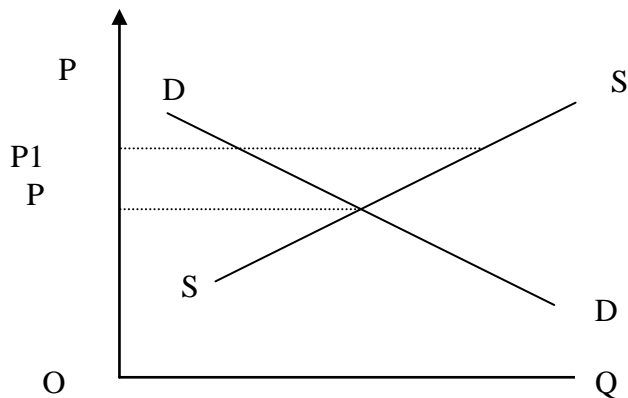
12. The prime reason for government intervention in the economy is to:

- (A) collect taxes
- (B) run public enterprises
- (C) provide a defence force
- (D) remedy the limitations of the price mechanism.

13. What term describes the sale of government assets to investors?

- (A) privatisation
- (B) monopolisation
- (C) corporatisation
- (D) deregulation

14. The diagram below shows the demand and supply for meat pies



Which of the following would occur if market forces prevail and the price charged for meat pies initially is set at OP_1 ?

- (A) Demand exceeds supply and the price will fall.
- (B) Supply exceeds demand and the price will rise.
- (C) Demand exceeds supply and the price will rise.
- (D) Supply exceeds demand and the price will fall.

15 . Which of the following best describes monopolistic competition?

- (A) A single firm selling a product at a high price.
- (B) A large number of firms selling a homogeneous product.
- (C) A few firms selling a slightly differentiated product.
- (D) A large number of firms selling a slightly differentiated product.

Preliminary Economics

Section II

Student Name or Number

55 marks

Attempt Questions 16 – 22

Allow about 1 hour and 10 minutes for this section

Answer the questions in the spaces provided.

Question 16 (5 marks)

Marks

(a) Define demand

1

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Tickets sold for a classical musical performance at the Sydney Opera House

Price per ticket	Number of tickets demanded
\$100	2000
\$120	1800
\$140	1500

(b) Calculate, using the total outlay method, the elasticity of demand if the price for musical tickets is increased from \$120 to \$140

2

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(c) Explain the significance of the price elasticity of demand to producers

2

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Question 17 (10 marks)

(a) Define productivity. **1**

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(b) Identify TWO ways a business can improve the productivity of its labour. **2**

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(c) Examine the benefits of improvements in productivity to the economy. **3**

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(d) Discuss the recent changes to Australia's industrial relations system.

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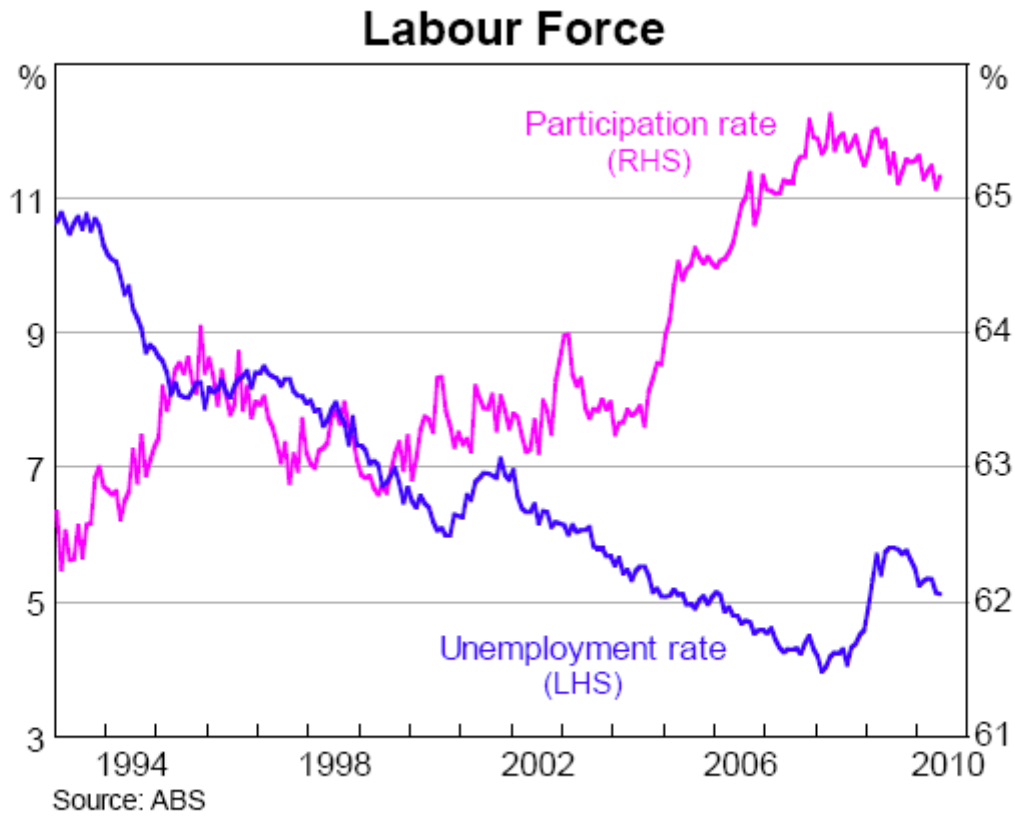
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Question 18 (6 marks)



Source: Australian Bureau of Statistics released July 2010.

(a) Identify the unemployment rate in January 2006 **1**

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(b) Define cyclical unemployment **1**

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(c) Identify ONE factor responsible for creating structural unemployment **1.**

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(d) Identify the formula for calculating the participation rate **1**

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(d) Account for the relationship between the unemployment rate and the participation rate between 2002 and 2007 2

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Question 19 (6 marks)

(a) Define real wages 1

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(b) Identify TWO factors that contribute to differences in wage outcomes in Australia 2

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(c) Analyse the arguments against a more equitable distribution of income from work 3

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Question 20 (8 marks)

- (a)** Apart from the Reserve Bank of Australia, identify one regulatory institution involved in the financial sector and describe its role. **2.**

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- (b)** Explain how the Reserve Bank of Australia is able to decrease the cash rate. **3.**

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- (d)** Explain how a decrease in the cash rate affects the level of economic activity **3**

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Question 21 (10 marks)

Below is the revenue and expenses for a hypothetical Government.

Year	Revenue	Expenses
2009-10	\$510 Billion	\$523 billion
2010-11	\$530 Billion	\$530 billion

(a) Define fiscal policy **1**

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(b) Calculate the fiscal outcome (budget outcome) for 2009-10 **1**

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(c) Calculate the percentage rate of increase in revenue between 2009-10 and 2010-11 **1**

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(d) Calculate the fiscal stance for 2010-11 **1**

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(e) Demonstrate how international agreements have influenced the economic policy making in Australia **2**

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(f) Evaluate the use of fiscal policy by the Australian Government in response to the global financial crisis **4**

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Question 22 (10 marks)

Refer to the table below to complete questions 27c

(a) Define social welfare payments **1**

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<i>Taxable income</i>	<i>Tax on this income</i>
0 – \$6,000	Nil
\$6,001 – \$35,000	15c for each \$1 over \$6,000
\$35,001 – \$80,000	\$4,350 plus 30c for each \$1 over \$35,000
\$80,001 – \$180,000	\$17,850 plus 38c for each \$1 over \$80,000
\$180,001 and over	\$55,850 plus 45c for each \$1 over \$180,000

(b) Distinguish between “progressive” and “regressive taxation” **2**

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(c) Calculate the amount of tax that an individual is required to pay if their income is

\$10,000 **1**

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(d) Outline the implications of an aging Australia on future Federal Government budgets

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(e) Examine the roles played by a progressive taxation system on the economy

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Section I

ANSWERS

15 marks

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Allow about 20 minutes for this section

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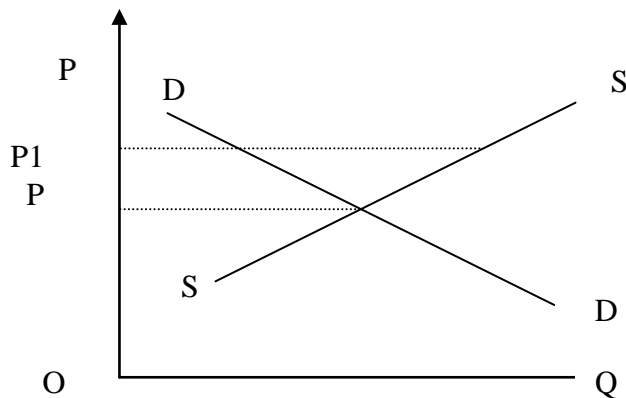
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Preliminary Economics

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Student Name or Number

55 marks

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Allow about 1 hour and 10 minutes for this section

Answer the questions in the spaces provided.

Question 16 (5 marks)

Marks

(a) Define demand

1

Demand signifies the ability or the willingness to buy a particular commodity at a given point of time.

Tickets sold for a classical musical performance at the Sydney Opera House

Price per ticket	Number of tickets demanded
\$100	2000
\$120	1800
\$140	1500

(b) Calculate, using the total outlay method, the elasticity of demand if the price for musical tickets is increased from \$120 to \$140

2

$$\$120 \times 1800$$

$$\$140 \times 1500$$

Price has increased, Total outlay increased, therefore demand is elastic

(c) Explain the significance of the price elasticity of demand to producers

2

- Able to set price to maximise profit
- if they know the good is inelastic that are able to increase prices

Question 17 (10 marks)

(e) Define productivity.

1

The quantity of production with a given quantity of resources, per unit of time

(f) Identify TWO ways a business can improve the productivity of its labour. **2**

- Improved training and development of workers
- Division/ specialisation of labour
- Managerial strategies; motivation,
- Employee share schemes
- Incentives and financial rewards (ie pay and working conditions, pay
- Improvements in technology

(e) Examine the benefits of improvements in productivity to the economy. **3**

Benefits

Economic growth,

Higher income levels for employees

Higher standard of living

Improved resource use

International competitiveness

Lower prices – controlling of inflation

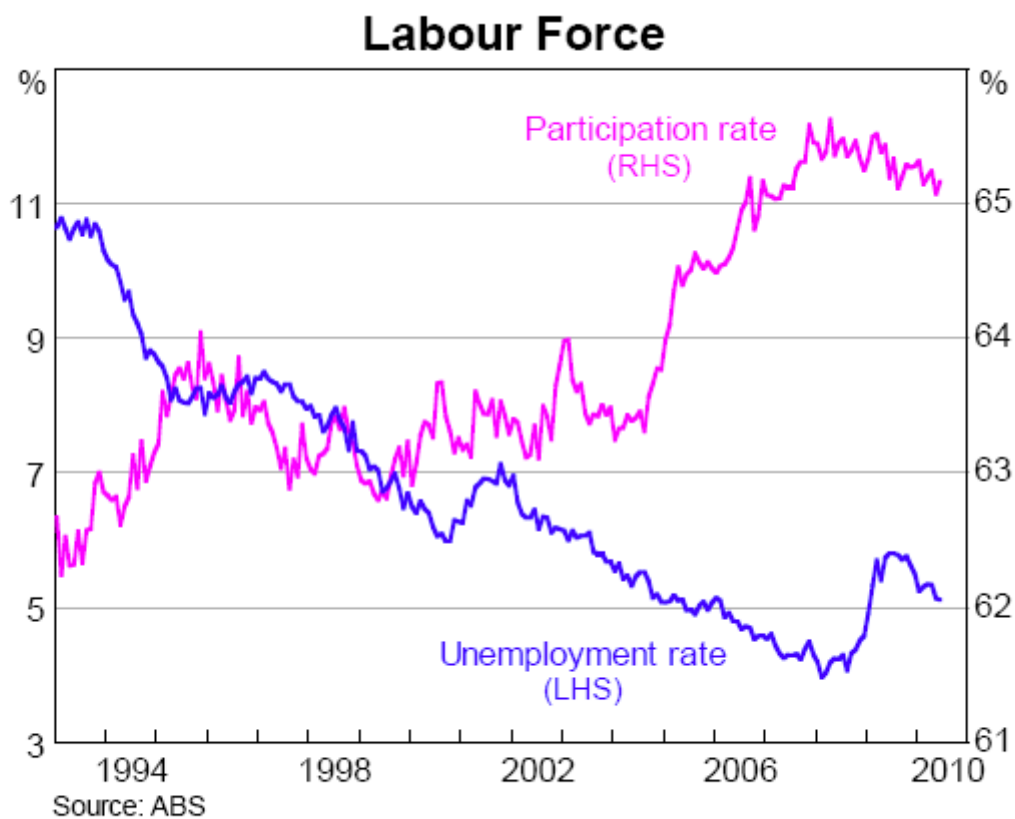
(f) Discuss the recent changes to Australia's industrial relations system. **4**

Changes

- Fair Work Australia
- Modern awards
- Removal of the Unfair Dismissal Act
- 10 National employment standards as the safety net
- Removal of Work Choices and individual agreements
- BOOST test – reintroduction of no-disadvantage test for workplace agreements
- Return to greater enterprise bargaining
- AIRC replaced by Fairwork Australia in
- Fair work Australia replaces the Fair Pay Commission in setting minimum wages
- Greater rights of unions gaining entry to workplaces

Better workplace harmony, improved productivity, less industrial action, meet union demands

Question 18 (6 marks)



Source: Australian Bureau of Statistics released July 2010.

(a) Identify the unemployment rate in January 2006 1

5% (5.5%)

(b) Define cyclical unemployment 1

Those persons that have become unemployed due to a downturn in the business cycle.

- (g) Identify ONE factor responsible for creating structural unemployment 1.
- Technological change
 - Changing consumer preferences
 - Globalisation
- (h) Identify the formula for calculating the participation rate 1

$$\text{Participation rate} = \frac{\text{Labour force}}{\text{Working-age population}} \times 100$$

- (d) Account for the relationship between the unemployment rate and the participation rate between 2002 and 2007 2

The unemployment rate and the participation rate have an inverse relationship. This is because the level of economic activity influences the participation rate considerably. As the economy grows and employment opportunities increase more workers will then be more willing to seek employment.

Question 19 (6 marks)

- (d) Define real wages 1
- The actual amount of goods and services that can be purchased with money.
 - wages that have been adjusted for inflation.

- (e) Identify TWO factors that contribute to differences in wage outcomes in Australia 2
- Skill and qualifications
 - Occupational mobility
 - Geographical mobility
 - Age
 - Gender

- Ethnic and cultural backgrounds

(f) Analyse the arguments against a more equitable distribution of income from work **3**

- Provides labour with an incentive to work harder
- Incentives for labour to improve education and skill levels
- Provides incentive for entrepreneurs to invest and take business risk
- Inequality creates the potential for higher savings and capital formation

Question 20 (8 marks)

(g) Apart from the Reserve Bank of Australia, identify one regulatory institution involved in the financial sector and describe its role. **2.**

- Australian Prudential Regulation Authority
- Australian Securities and Investments Commission
- Australian Treasury
- Council of Financial Regulators

Provides a brief description of their role

(b) Explain how the Reserve Bank of Australia is able to decrease the cash rate. **3.**

OMO are conducted directly with financial institution and the RBA through their exchange settlement accounts. When the RBA sells second hand government securities, it increase money from the financial institutions exchange settlement accounts, thus increasing the supply of funds in that market. The increased supply of funds puts lowers th interest rates in that market (called the cash rate).

(d) Explain how a decrease in the cash rate affects the level of economic activity **3**

When the cash rate decreases, banks decrease their other interest rates on other loans such as mortgages, business loans and credit cards. Consumers and business then have to pay less for new loans and existing debt. This will encourage greater consumption and investment leading to a increase in economic activity.

Could also talk about

- Transmission mechanisms

- Exchange rate effect
- Asset price effect

Question 21 (10 marks)

Below is the revenue and expenses for a hypothetical Government.

Year	Revenue	Expenses
2009-10	\$510 Billion	\$523 billion
2010-11	\$530 Billion	\$530 billion

- (a)** Define fiscal policy **1**

Fiscal policy involves the use of the government's revenue and expenditure to influence the level of economic activity.

- (h)** Calculate the fiscal outcome (budget outcome) for 2009-10 **1**

Deficit budget

- (i)** Calculate the percentage rate of increase in revenue between 2009-10 and 2010-11 **1**

$$(530 - 510) / 510$$

3.92% or 3.9%

- (j)** Calculate the fiscal stance for 2010-11 **1**

Contractionary

(k) Demonstrate how international agreements have influenced the economic policy making in Australia **2**

- Any International agreement, WTO, APEC, Kyoto,

(l) Evaluate the use of fiscal policy by the Australian Government in response to the global financial crisis **4**

Describes effectiveness in terms of stabilisation, unemployment

Question 22 (10 marks)

Refer to the table below to complete questions 27c

(f) Define social welfare payments **1**

Payments made to increase the incomes of individuals and families in need of assistance by the government.

(g) Distinguish between “progressive” and “regressive taxation” **2**

Progressive taxation is a system where higher income earners pay proportionally more tax while a regressive tax system is where income earners pay proportionally more tax.

(h) Calculate the amount of tax that an individual is required to pay if their income is

\$10,000 **1**

Tax paid: \$600

(i) Outline the implications of an aging Australia on future Federal Government budgets

3

- more spending on health care and aged services
- Spending on pensions
- Reduced tax payers paying for increased amount of Australians on social welfare
- Affect structural components of the budget
- Less money being received as taxation

(j) Examine the roles played by a progressive taxation system on the economy **3**

- Stabilisation of economic activity
- Redistributes income
- Needs to provide an examination