



Student Number _____

Economics

2015 Preliminary HSC Examination

General Instructions

- Reading time – 5 minutes
- Working time – 3 Hours
- Write using black or blue pen
- Board approved calculators may be used
- Write your **computer number** where indicated
- Do not remove this paper from the examination room

Section I – 20 marks

- Attempt Questions 1-20
Use the answer sheet provided

Section II – 40 marks

- Attempt Questions 21-24
Complete on the examination paper

Section III – 20 marks

- Attempt Question 25
Begin your answer on a new sheet of paper

Section IV – 20 marks

- Attempt Question 26 or 27
Begin your answer on a new sheet of paper

Section I
Multiple Choice
20 marks

Attempt Questions 1-20

Use the multiple choice answer sheet provided.

Allow 20 minutes for this section

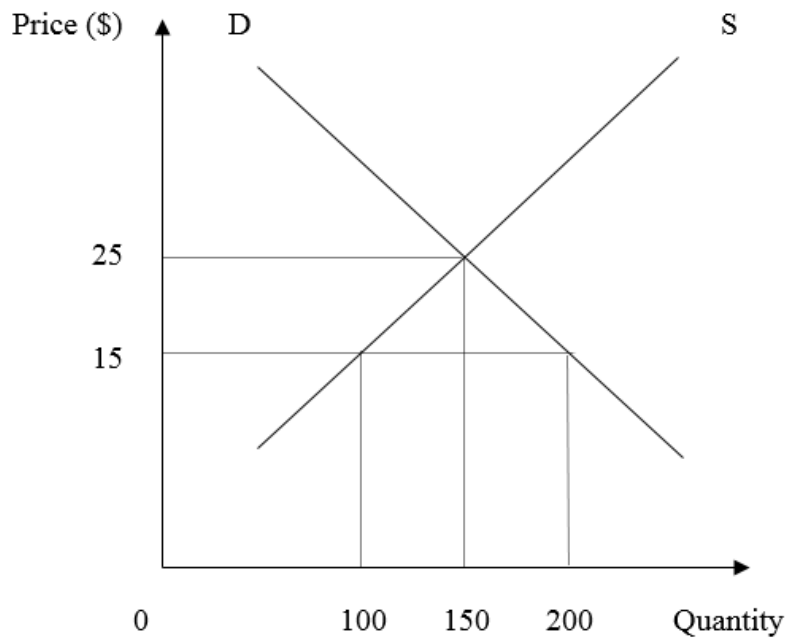
1. The table shows the production schedule for an economy.

Snowboards	0	30	60	90	120	150
Ice skates	250	200	150	100	50	0

What is the opportunity cost of producing 100 ice skates?

- A 30 snowboards
 - B 60 snowboards
 - C 90 snowboards
 - D 100 snowboards
2. Which of the following would affect the demand for labour?
- A The demand for the good it produces
 - B The number of workers in the profession
 - C The amount of training required
 - D The retirement age
3. Which of the following institutions would investigate allegations of price fixing?
- A Australian Prudential Regulation Authority
 - B Australian Competition and Consumer Commission
 - C Reserve Bank of Australia
 - D Australian Securities Exchange
4. How does the marginal propensity to consume generally change as income rises?
- A. Increases
 - B. Decreases
 - C. Does not change
 - D. Initially increases then decreases

5. The graph shows the demand and supply for limited-edition fishing lures.



What is the price elasticity of demand for limited-edition lures when the price rises from \$15 to \$25?

- A Relatively elastic
- B Perfectly elastic
- C Relatively inelastic
- D Unitary elasticity

6. Which of the following terms best describes the process of a union negotiating new salary increases with an employer?

- A Arbitration
- B Collective bargaining
- C Individual bargaining
- D Certified bargaining

7. What is demand?

- A The quantity of a good purchased from the government at a point in time
- B The quality of a good that consumers are able to purchase at a point in time
- C The quantity of a good that consumers are willing to purchase at a particular price
- D The quality and quantity of a good purchased at a point in time

8. The table below shows federal government expenditure and revenue for Bulldogland.

Year	Expenditure (\$000)	Revenue (\$000)
1	350 000 000	340 000 000
2	370 000 000	347 000 000

Which term best describes the impact of this budget on the economy of Bulldogland?

- A. Contractionary
- B. Expansionary
- C. Neutral
- D. Expediential

9. Which of the following is a National Employment Standard?

- A. Social welfare
- B. To be appropriately dressed for your job
- C. Annual leave
- D. Pay as you go taxation

10. According to the information below, what is the rate of unemployment in this economy?

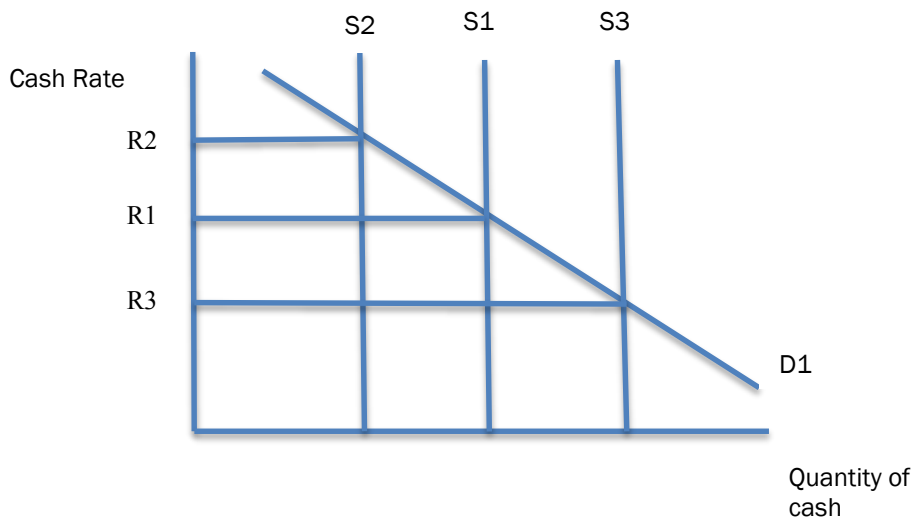
15 - 65 Year Olds	Employed	Unemployed	Participation Rate
60 Million	45 Million	8 Million	70%

- A. 15.1%
- B. 17.7%
- C. 50.09%
- D. 85.7%

11. Which of the following is an example of a factor that contributes to external economies of scale?

- A. New marketing strategies
- B. Specialisation of labour
- C. Bulk buying of resources
- D. Highly developed public infrastructure

12. What is the value of imports into an economy if investment is \$220 billion, exports are \$120 billion, savings are \$210 billion, the government budget is balanced and the economy is in equilibrium?
- A. \$120bn
 B. \$130bn
 C. \$310bn
 D. \$340bn
13. The following diagram illustrates the demand and supply of cash in the short term money market

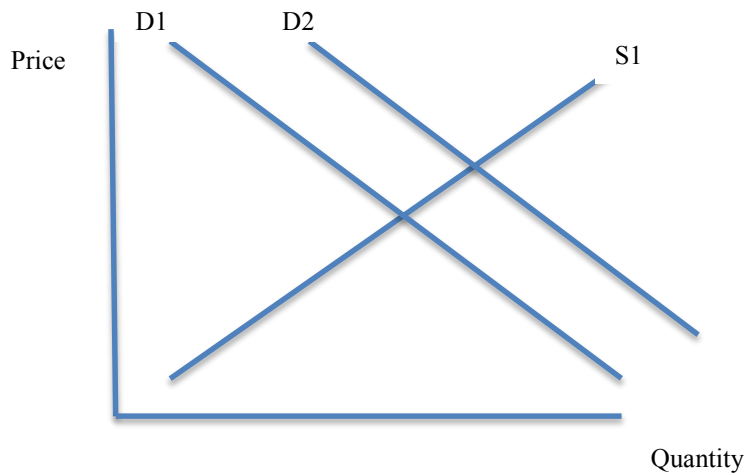


If the Reserve Bank sold government securities in the cash market what effect would this have on the cash supply (S1) and the cash rate (R1)?

- A. The supply of cash would be S2 and the cash rate would be R2
 B. The supply of cash would be S3 and the cash rate would be R3
 C. The supply of cash would be S1 and the cash rate would be R1
 D. The supply of cash would be S2 and the cash rate would be R3
14. Which of the following best describes privatisation?
- A. The removal of unnecessary government controls on industry
 B. Delisting a company off the share market
 C. The restructuring of government-owned businesses to improve their efficiency
 D. The selling of government businesses to the non-government sector

15. Which of the following is a leakage in the circular flow of income?
- A. Consumption
 - B. Investment
 - C. Saving
 - D. Exports
16. Which of the following is the most likely consequence of an increase in the supply of labour in a competitive labour market?
- A. An increase in the wage rate and a rise in the quantity of labour demanded
 - B. An increase in the wage rate and a fall in the quantity of labour demanded
 - C. A decrease in the wage rate and a fall in the quantity of labour demanded
 - D. A decrease in the wage rate and a rise in the quantity of labour demanded
17. Which of the following is the return for providing land to the production process?
- A. Rent
 - B. Interest
 - C. Profit
 - D. Capital gain
18. Which of the following is a direct tax?
- A. Company tax
 - B. Carbon tax
 - C. GST
 - D. Excise duty
19. Which of the following is a responsibility of the NSW Government?
- A. Customs
 - B. Land zoning
 - C. Secondary education
 - D. Defence

20. The following diagram shows the market for fishing line.



Which of the following could have caused demand to increase from D1 to D2?

- A. A rise in the price of fishing line
- B. A decrease in the quantity of people fishing
- C. A reduction in the cost of manufacturing fishing line
- D. An increase in consumer incomes

End of Section I

Section II
Short answer response

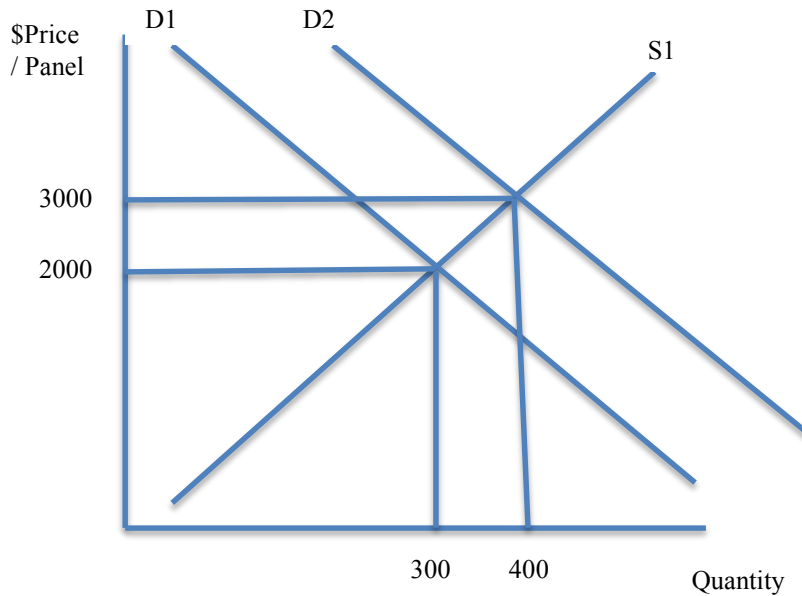
40 marks.

Attempt all questions in the spaces provided

Allow 1 hour and 10 minutes for this section

Question 21 (10 marks)

The following diagram shows the market for solar panels.



- a) State the initial equilibrium price and quantity of solar panels. **1**

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- b) Using the total outlay method calculate the change in total outlay between a price of \$2000 and \$3000. (show working) **2**

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c) How would you describe the price elasticity of demand for solar panels? **1**

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d) Outline one reason why knowledge of price elasticity is important for firms. **2**

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e) Describe two factors which can affect the elasticity of demand of a product. **4**

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Question 22 (10 marks).

Student Number:.....

a) Explain what is meant by the interest rate differential. **1**

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b) Outline two factors which can influence the level of interest rates in the Australian economy. **4**

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c) Describe how a loosening of monetary policy will impact on economic activity. **5**

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Question 23 (10 marks).

Student Number:.....

The table shows labour data for an economy.

<i>Year</i>	<i>Unemployed</i>	<i>Employed</i>	<i>Population 15 & over</i>	<i>Total Population</i>
1	40000	198000	309000	420000
2	45000	211000	318000	439000

- a) Calculate the participation rate in Year 2. (Show working) **1**

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- b) Outline a possible reason for the change in the participation rate from Year 1 to 2. **2**

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- c) Calculate the rate of unemployment in Year 2. (Show working) **1**

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- d) Explain the difference between nominal wages and real wages. **2**

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e) Describe **one** similarity and **one** difference between the market for labour and the market for a luxury consumer good.

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Question 24 (10 marks).

Student Number:.....

- a) Explain the characteristics of a public good and give an example. **2**

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- b) Describe two methods available to the federal government to influence the distribution of income in the Australian economy. **4**

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- c) What is a demerit good and provide an example? Explain the link between demerit goods and market failure. **4**

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Section III
Extended Response

20 marks

Attempt Question 25

Begin your answer on a new sheet of examination paper

Allow 40 minutes for this section

In your answer you will be assessed on how well you:

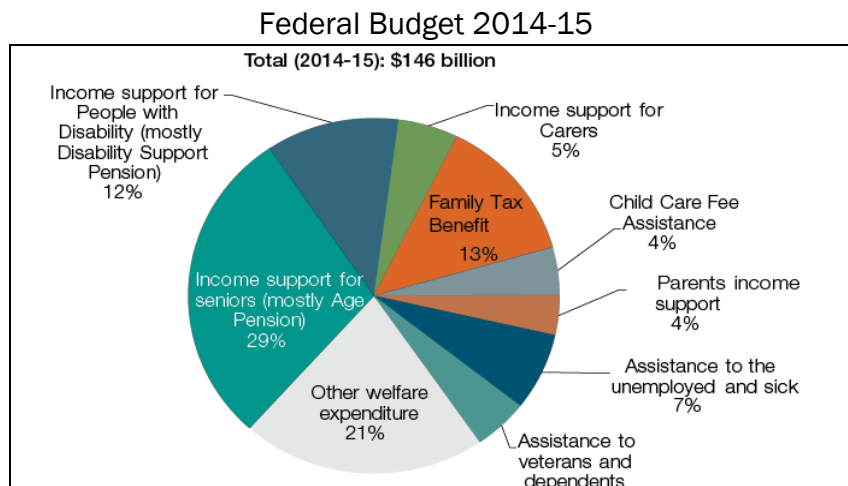
- Use your knowledge and the economic information provided
- Apply economic terms, concepts, relationships and theory
- Present a sustained, logical and well-structured answer to the question

Question 25 (20 marks)

Describe the different types of unemployment and explain the economic and social effects of unemployment on the Australian economy.

When a person loses their job there is often an impact on their standard of living.
Prof Watson

In May 2013, about 900,000 employed people were underemployed and this was around 30% higher than the number of unemployed people.
<http://www.abs.gov.au/>



Section IV

Extended Response

20 marks

Attempt Question 26 or 27

Begin your answer on a new sheet of examination paper

Allow 40 minutes for this section

In your answer you will be assessed on how well you:

- Use your knowledge
 - Apply economic terms, concepts, relationships and theory
 - Present a sustained, logical and well-structured answer to the question
-

Question 26

Explain the concept of consumer sovereignty and describe the factors influencing decisions to spend or save.

OR

Question 27

Describe the factors affecting market supply and explain the difference between movements along and shifts in a supply curve.

End of paper

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Section I – Multiple Choice

Circle the most correct answer to each question below

Example:

Which of the following is the most correct spelling of the term *Economics*

- A Economsic
- B Economicsbro
- C Ecomonics
- D Economics

A B C **D**

- | | | | | |
|-----|---|---|---|---|
| 1. | A | B | C | D |
| 2. | A | B | C | D |
| 3. | A | B | C | D |
| 4. | A | B | C | D |
| 5. | A | B | C | D |
| 6. | A | B | C | D |
| 7. | A | B | C | D |
| 8. | A | B | C | D |
| 9. | A | B | C | D |
| 10. | A | B | C | D |
| 11. | A | B | C | D |
| 12. | A | B | C | D |
| 13. | A | B | C | D |
| 14. | A | B | C | D |
| 15. | A | B | C | D |
| 16. | A | B | C | D |
| 17. | A | B | C | D |
| 18. | A | B | C | D |
| 19. | A | B | C | D |
| 20. | A | B | C | D |

Section I – Multiple Choice

Circle the most correct answer to each question below

Example:

Which of the following is the most correct spelling of the term *Economics*

- A Econsmsic
- B Economicsbro
- C Economics
- D Economics

A

B

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|-----|---|---|---|---|-----------------------|
| 1. | A | B | C | D | <input type="radio"/> |
| 2. | A | B | C | D | <input type="radio"/> |
| 3. | A | B | C | D | <input type="radio"/> |
| 4. | A | B | C | D | <input type="radio"/> |
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| 10. | A | B | C | D | <input type="radio"/> |
| 11. | A | B | C | D | <input type="radio"/> |
| 12. | A | B | C | D | <input type="radio"/> |
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| 16. | A | B | C | D | <input type="radio"/> |
| 17. | A | B | C | D | <input type="radio"/> |
| 18. | A | B | C | D | <input type="radio"/> |
| 19. | A | B | C | D | <input type="radio"/> |
| 20. | A | B | C | D | <input type="radio"/> |

Section II

Question 21

- a) Using an example, describe how the price mechanism works. 2

2	Correctly describes the price mechanism and gives an example
1	Correctly describes or gives an example

- b) Explain TWO negative impacts of a free market operating without government intervention. 4

4	Explains TWO negative impacts
3	Explains ONE and identifies ONE
2	Explains ONE; identifies TWO
1	Identifies ONE

Answers include:

- Public goods are not provided
- Merit goods are undersupplied
- Demerit goods are oversupplied
- Concentration of power may occur
- Price too high
- Price too low

- c) Discuss how ONE government policy has been influenced by interest groups in Australia.

4	Correctly identifies ONE policy (1), correctly identifies ONE interest group related to the policy (1), Discusses – pros & cons of the influence – will the outcome be better/worse? (2)
3	Any combination of the above adding to 3 marks
2	Any combination of the above adding to 2 marks
1	Either identifies ONE policy or ONE interest group

Question 22

a) What is the difference between economies of scale and diseconomies of scale? **2**

2	Correctly states the difference between economies and diseconomies of scale
1	States correctly what either economies or diseconomies of scale are

b) Describe ONE advantage and ONE disadvantage of specialisation of labour. **2**

2	Describes ONE advantage and ONE disadvantage of specialisation of labour
1	Describes ONE advantage or disadvantage only

c) Outline a factor that contributes to internal economies of scale. **2**

2	Outlines ONE factor that contributes to internal economies of scale
1	Identifies ONE factor

d) Explain ONE benefit of increased productivity of employees for firms, and ONE benefit for the economy. **4**

4	Explains ONE benefit for firms and ONE benefit for the economy
3	Explains ONE and identifies ONE
2	Explains ONE or identifies TWO
1	Identifies ONE

Question 23

a) Explain the law of supply. 2

2	Correctly explains the law of supply: as price increases, suppliers are more willing and able to supply a product
1	Shows some, but not complete knowledge of the law of supply.

b) Distinguish between a movement along a supply curve and a shift in a supply curve. 2

2	Correctly distinguishes between a movement along a curve and a shift in a curve
1	Correctly identifies either a movement along or shift of a curve

Movements along the curve occur because of a price change. They take the form of an expansion or contraction of supply.

Shifts in supply occur when there is a factor leading to an increase or decrease of supply, or a shift of the entire curve outwards or inwards.

c) Distinguish between relatively elastic demand and relatively inelastic demand. 2

2	Correctly distinguishes between relatively elastic and inelastic demand
1	Shows some knowledge of elastic or inelastic demand; does not distinguish clearly.

Elasticity of demand refers to the responsiveness of demand to a price change. Relatively elastic demand means that there will be a strong response to a price change, ie. demand will rise or fall by a more than proportional amount to the price change. Relatively inelastic demand means there is a weak responsiveness to a price change.

d) Discuss the importance of understanding elasticity of demand for a business. 4

4	Discusses the importance of understanding elasticity by looking at least two of the following: <ul style="list-style-type: none"> - identifying that it will help determine revenue - identifying total outlay method of calculating revenue - Applying that business decisions are impacted by the elasticity of a product - Need to talk about factors affecting elasticity??
3	Discusses one of the above and list another
2	Discusses one or lists two correct ones
1	List one correct reason

Question 24

a) Describe ONE way that consumer sovereignty can be diminished by firms. 2

2	Describes ONE way
1	Lists one way

Answers could include: advertising, planned obsolescence, misleading conduct.

b) Explain the difference between the average propensity to consume (APC) and the marginal propensity to consume (MPC). 2

2	Explains that the MPC refers to the change in consumption based on a change in income, rather than APC which is the overall proportion of income consumed either by an individual or a population.
1	Shows some, but incomplete knowledge.

c) Explain the relationship between the level of income of a nation and the average propensity to consume. 2

2	Explains that as the average income of a nation increases, the APC will fall. This is because less of the total income is being spent on necessities/needs and more can be saved.
1	Shows some, but incomplete knowledge.

d) Discuss TWO links between the circular flow of income and the business cycle. 4

4	Discusses TWO links between the CFOI and the business cycle
3	Discusses ONE link and outlines ONE link
2	Discusses ONE link or outlines ONE
1	Outlines ONE

- Example 1

Downswing: leakages > injections. Possibly $S > I$ (excess savings); $T > G$ (Budget surplus) or $M > X$ (trade surplus).

Upswing: Injections > leakages. $I > S$, $G > T$, $X > M$

Year 11 Economics
2014 Preliminary Examinations – Question 25

Describe the factors which affect the supply of labour and evaluate the impact of labour market trends on individuals in Australia. In your response refer to the information below.

Mark Range	Criteria
17-20	<ul style="list-style-type: none"> • Integrates appropriate economic terms, concepts, issues, relationships and theory • Develops a sustained logical and well-structured answer with a clear introduction, body and conclusion • Demonstrates a precise and extensive knowledge that describes the factors affecting the supply of labour • Uses relevant economic data and stimulus material to support a contemporary and comprehensive evaluation of the impact of labour market trends on individuals
13-16	<ul style="list-style-type: none"> • Consistently uses appropriate economic terms, concepts, issues, relationships and theory • Develops a logical and well-structured answer with a clear introduction, body and conclusion • Demonstrates a correct and appropriate knowledge that describes the factors affecting the supply of labour • Uses relevant stimulus data to support a logically developed evaluation of the impacts of labour market trends on individuals
9-12	<ul style="list-style-type: none"> • Uses appropriate economic terms, concepts, issues, relationships and theory • Develops an answer that shows some structure including an introduction, body and conclusion • Demonstrates correct knowledge that outlines factors affecting supply of labour • Uses stimulus data to provide an explanation of the role of government intervention in the Australian economy
5-8	<ul style="list-style-type: none"> • Uses some economic terms, concepts, issues, relationships and theory • Develops an answer that has some structure. No clear introduction, body and conclusion • Demonstrates some knowledge of factors affecting supply of labour • Makes minimal use of stimulus data concerning the impacts of labour market trends on indivs
1-4	<ul style="list-style-type: none"> • Applies some appropriate terminology to communicate economic ideas • Demonstrates limited written structure • Presents a limited understanding of the factors affecting the supply of labour or the impacts of labour market trends • Provides little if any stimulus data to support their answer

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Mark:.....

Signed:.....

Marker's Comments

Describe the factors which affect the supply of labour and evaluate the impact of labour market trends on individuals in Australia. In your response refer to the information below.

The factors affecting supply include:

- Pay levels
- Working conditions
- Education, skills and experience
- Mobility of labour – occupational and geographic
- The participation rate
- Age and size of the population

A detailed description was required of each with actual examples where appropriate.

Evaluate means to look at the advantages and disadvantages and make a valued judgment. Many responses were not able to do this – they just described.

The trends that should have been covered were:

- An aging population. Accurate reference to the stimulus was required here.
- Enterprise agreements and the issues associated with a decentralised labour market
- An increase in part time and casual labour
- An increase in the number of women in the labour force
- An increase in job/work flexibility – working from home and having flexible hours.

An evaluation of these points would have outlined the advantages and disadvantages and finished with a valued judgment. EG, Australia's population is aging. This means that the % of >65 yr olds as a proportion of the population is increasing. This age group does not contribute much in the way of production or taxes but certainly uses the health system more than younger people. The working population will need to support an increasing number of elderly. The stimulus states that in 50 yrs the average worker will be supporting the equivalent of 2.7 people over the age of 65.

2014 Preliminary Examinations – Question 26

Describe the different market structures and analyse how the government may intervene to correct market failure.

Mark Range	Criteria
17-20	<ul style="list-style-type: none"> Integrates appropriate economic terms, concepts, issues, relationships and theory Develops a sustained logical and well-structured answer with a clear introduction, body and conclusion Demonstrates a precise and extensive knowledge that describes the different market structures and analyses how govt may intervene to correct market failure Uses relevant economic data and examples throughout the response
13-16	<ul style="list-style-type: none"> Consistently uses appropriate economic terms, concepts, issues, relationships and theory Develops a logical and well-structured answer with a clear introduction, body and conclusion Demonstrates a correct and appropriate knowledge that describes the different market structures and analyses how govt may intervene to correct market failure Uses relevant data and examples
9-12	<ul style="list-style-type: none"> Uses appropriate economic terms, concepts, issues, relationships and theory Develops an answer that shows some structure including an introduction, body and conclusion Demonstrates correct knowledge about market structures and govt intervention Uses data and examples
5-8	<ul style="list-style-type: none"> Uses some economic terms, concepts, issues, relationships and theory Develops an answer that has some structure. No clear introduction, body and conclusion Demonstrates some knowledge of the limitations of the free market economy Makes minimal use of examples and data
1-4	<ul style="list-style-type: none"> Applies some appropriate terminology to communicate economic ideas Demonstrates limited written structure Presents a limited understanding of the limitations of the free market economy Provides little if any examples or data to support their answer

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Mark:.....

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Marker's Comments

Describe the different market structures and analyse how the government may intervene to correct market failure.

Unfortunately, many candidates confused economic systems with market structures. The syllabus clearly distinguishes between economies (economic systems) and market structures. A "mixed market" should be written as a "mixed market economy" and I have never heard of a "planned market".

There are four market structures; pure competition, monopolistic competition, oligopoly and monopoly. A description of each market was required along with actual examples.

Market failure is when the price mechanism produces an unfavourable outcome (in the eyes of govt and society). When market failure occurs the govt may intervene. Examples of intervention include:

- Price Intervention. Price ceilings and price floors, diagrams of each, examples of each in the economy
- Quantity Intervention. Sometimes the quantity of G&S produced may be too high or too low and the level of externalities associated with these levels are not ideal. Positive and negative externalities, diagrams of each and actual examples
- Distribution of Income. Progressive income tax system, welfare payments (automatic stabilisers).
- Economic Fluctuations in the Business Cycle. Economic policies are implemented to try and smooth out these fluctuations. Fiscal policy (budget) and monetary policy (interest rates).
- Abuse of Market Power. Monopolies and Oligopolies can abuse market power through collusion and price setting. ACCC and ASIC are govt organisations that oversee market behaviour.

Remember to include diagrams and draw them big – half a page is good.

Neat writing will score you more marks. HSC markers will not bother trying to decipher poor hand writing. They will just estimate your score.

Year 11 Economics 2014 Preliminary Examinations – Question 27

With reference to the Australian economy, examine recent trends in unemployment and evaluate the success of fiscal policy in reducing unemployment

Mark Range	Criteria
17-20	<ul style="list-style-type: none"> • Integrates appropriate economic terms, concepts, issues, relationships and theory • Develops a sustained logical and well-structured answer with a clear introduction, body and conclusion • Demonstrates a precise and extensive knowledge of recent trends in u/e • Demonstrates a precise and extensive knowledge to support an examination of fiscal policy and u/e • Uses relevant examples and data
13-16	<ul style="list-style-type: none"> • Consistently uses appropriate economic terms, concepts, issues, relationships and theory • Develops a logical and well-structured answer with a clear introduction, body and conclusion • Demonstrates a correct and appropriate knowledge of recent trends in u/e • Demonstrates a correct and appropriate knowledge of fiscal policy and u/e • Uses relevant examples and data to support a logically developed evaluation of the impacts of taxes on the distribution of income and wealth and the allocation of resources in the Aust economy.
9-12	<ul style="list-style-type: none"> • Uses appropriate economic terms, concepts, issues, relationships and theory • Develops an answer that shows some structure including an introduction, body and conclusion • Demonstrates correct knowledge of recent trends in u/e • Demonstrates a correct knowledge of fiscal policy and u/e • Uses examples and data
5-8	<ul style="list-style-type: none"> • Uses some economic terms, concepts, issues, relationships and theory • Develops an answer that has some structure. No clear introduction, body and conclusion • Demonstrates some knowledge of u/e • Shows minimal understanding of fiscal policy
1-4	<ul style="list-style-type: none"> • Applies some appropriate terminology to communicate economic ideas • Demonstrates limited written structure • Presents a limited understanding of the question

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Mark:.....

Signed.....

Marker's Comments

With reference to the Australian economy, examine recent trends in unemployment and evaluate the success of fiscal policy in reducing unemployment.

Only a handful of candidates chose to answer this question and unless you had learnt specific knowledge about u/e then you would have found it difficult.

Recent trends should have included the current rate of u/e of 6.4%. In Feb 2008 (pre GFC) it was 4%, in Jun 09 it 5.7% (peak of u/e after GFC). Since then it fell to 4.9% in Mar 11 and since has gradually increased to 6.4%, the highest level in over a decade. Most candidates were not able to show this trend.

Fiscal policy is the use of the federal budget to influence resource allocation, redistribute income and reduce fluctuations in the business cycle.

Since the GFC, fiscal policy has been used with varying degrees of success to reduce u/e. When the GFC hit in 2008, the Rudd Govt implemented a stimulus package of \$77 Billion via fiscal policy which was aimed at reducing the impact of the economic downturn. The package was expansionary and included cash grants to all households and a comprehensive capital works program which included building programs in schools and residential houses. The fact that u/e peaked at 5.7% showed that FP was extremely effective in keeping people in jobs.

The main advantage is that FP can be implemented immediately unlike other govt policies where there may be a considerable time lag.

Since then, FP has not been as effective in reducing u/e because the rate has slowly been increasing. However, there are still a range of initiatives in the budget that are directly aimed at reducing u/e. these include:

- Work for the dole
- Reducing the tax free threshold in 2012/13 to \$18200
- Paying for private employment services
- Paid parental leave which will increase participation rate of women
- Infrastructure projects