



STUDENT NUMBER

PENRITH ACADEMIC SELECTIVE HIGH SCHOOL

**2016
PRELIMINARY
EXAMINATION PAPER**

Economics

General Instructions

- Reading Time – 5 minutes
- Working Time – 2 hours
- Write using black pen
- Board-approved calculators may be used

Total Marks - 65

Section I

15 marks

- Attempt Questions 1– 15
- Allow about 30 minutes for this section

Section II

30 marks

- Attempt questions 16-18
- Allow about 45 minutes for this section

Section III

20 marks

- Attempt Question **19 OR 20**
- Allow about 45 minutes for this section

Section I

15 marks

Attempt Questions 1–15

Allow about 20 minutes for this section

Use the multiple-choice answer sheet for Questions 1-15.

1. What does the movement in the economic cycle refer to?
 - (A) Boom to recession
 - (B) Equilibrium to disequilibrium
 - (C) Excess demand to shortage of demand
 - (D) Profit to loss in an enterprise

2. What does price elasticity of supply measure?
 - (A) The changeability of price
 - (B) The changeability of quantity
 - (C) The responsiveness of demand changes to a change in price
 - (D) The responsiveness of quantity changes to a change in price

3. The inability of the price mechanism to price public goods is an example of which of the following?
 - (A) Social costs
 - (B) Adverse spillovers
 - (C) Market failure
 - (D) Negative externalities

4. What is the central problem that needs to be solved by an economy?
 - (A) How to distribute goods and services fairly
 - (B) How to satisfy the unlimited wants with the limited resources
 - (C) How to satisfy the limited wants with the unlimited resources
 - (D) How to distribute resources between competing users

5. What is the opportunity cost of producing a given commodity?
 - (A) Its market price compared with the opportunity cost of producing a good
 - (B) The price paid for the resources used in its production
 - (C) The products the consumer has given up in order to purchase the given commodity
 - (D) The value of the next best use to which the resources used in its production could be used

6. Who are some of the main participants in foreign exchange markets?

(A)	ASX	Governments	Tourists
(B)	Governments	Financial institutions	Speculators
(C)	Tourists	Financial institutions	Exporters
(D)	Importers	Migrants	ASX

7. Which of the following would most likely occur if the cost of labour rises relative to capital?

- (A) Labour will be substituted by capital
- (B) Capital will be substituted by labour
- (C) The proportion of labour and capital used in production will remain unchanged
- (D) Workers will expect to undertake more training

8. In relation to taxation, which of the following statements is false?

- (A) Indirect taxes cannot be passed onto others
- (B) Direct taxes are paid by the person on whom they are levied
- (C) Indirect taxes are a source of Government revenue
- (D) Direct taxes can be passed on to others

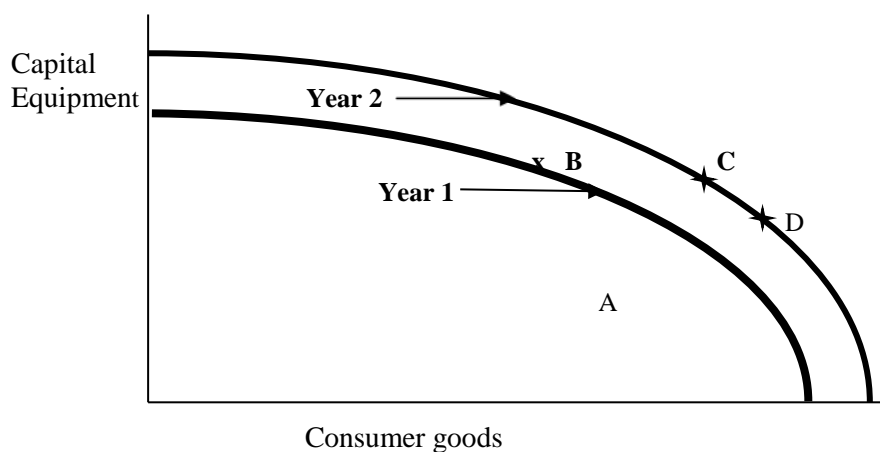
9. Which of the following are leakages from the circular flow of income?

(A)	Savings	Exports
(B)	Government spending	Investment
(C)	Government taxation	Consumption spending
(D)	Imports	Government taxation

10. How will an increase in the level of consumption affect wages and savings?

	Wages	Savings
(A)	Increase wages	Decrease savings
(B)	Increase wages	Increase in savings
(C)	Decrease wages	Decrease savings
(D)	Decrease wages	Increase savings

Below are production possibility curves showing choices a country faces between capital goods output and consumer goods output.



11. Which of the following represents an inefficient allocation of society's scarce resources?

	Inefficient Resources	Year
(A)	Point B	Year 1
(B)	Point A	Year 1
(C)	Point C	Year 2
(D)	Point D	Year 2

12. What are the labour force participation rate and the unemployment rate?

Total population = 20 million
 Working age population = 13 million
 The labour force = 10 million
 The number of people unemployed = 1.5 million

	Participation Rate %	Unemployment Rate %
(A)	83	11.5
(B)	80	12
(C)	77	15
(D)	68	17

13. Which of the following would have a positive externality?

- (A) A decrease in the price of cars and petrol
- (B) Research and development spending by companies
- (C) A large, open-air heavy metal rock concert
- (D) The discovery of a new oil and gas field in Bass Strait

14. When does a price ceiling exist?

- (A) When price is set above equilibrium
- (B) When price is set below equilibrium
- (C) When price is not permitted to fall below a specified level
- (D) When there is a surplus of a good

15. Which of the following best describes the economic concept of 'free riding'?

- (A) Distributing the benefit of a good equally throughout society
- (B) Allowing all commuters to travel free on public transport on weekends
- (C) Not being able to exclude a person who does not pay for a good from enjoying its benefit
- (D) Requiring producers to pay for externalities associated with the production process

Section II

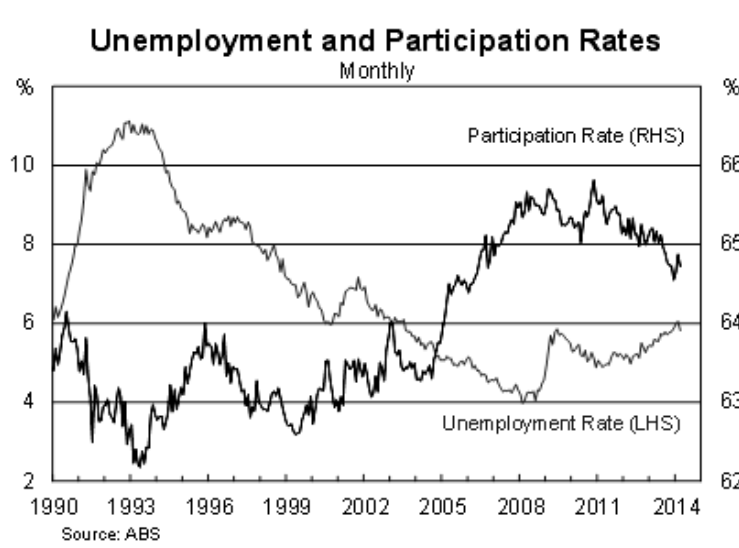
30 marks

Attempt Questions 16 –18

Allow about 45 minutes for this section

Answer the questions in the spaces provided.

Question 16 (10 marks)



- a) Describe the relationship between the participation rate and unemployment rate between 2002 and 2014

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Question 16 continues on the next page

b) Explain why structural unemployment is being experienced in the Australian economy today.

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c) Discuss TWO costs to the Australian economy of a rising unemployment rate.

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Question 18 (10 marks)

Given the following information answer the questions below

T = 300	I = 100	S = 200	G = 400	X = 500	M = 600	C = 800
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- a) Calculate the difference between leakages and injections in the above economy. 2

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- b) Describe the changes in the level of economic activity when leakages are greater than injections 2

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Question 18 continues on the next page

- c) Explain how the government might respond so as to restore the economy to equilibrium in the above economy. 2

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- d) Explain the effects of a 'boom' in an economy on its circular flow of income. 4

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Section III

20 marks

Attempt Question 19 OR Question 20

Allow about 45 minutes for this section

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

- demonstrate knowledge and understanding relevant to the question
 - apply relevant economic terms, concepts, relationships and theory
 - present a sustained, logical and cohesive response
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Question 19 (20 marks)

Economists recognise that there are limitations in a free market economy. Explain why governments could intervene in such markets to reduce limitations.

OR

Question 20 (20 marks)

Explain why the government has a role to redistribute income in the Australian economy and how it might bring about such changes.

Student number:

Multiple Choice Answer Sheet

General Instructions

*Choose the MOST correct answer A, B, C, or D by filling in the response circle completely.
Attempt all questions.*

Question	A	B	C	D
1	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
2	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
3	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
4	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
5	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
6	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
7	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
8	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
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11	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
12	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
13	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
14	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
15	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>