

2011
Higher School Certificate
Preliminary Examination

Economics

General Instructions

- Reading time- 5 minutes
- Working time – 2 hours
- Board approved calculators may be used
- Write using black or blue pen
- Write your name at the top of every page

Total Marks – 80

Section I

Total marks (20)

Attempt questions 1- 20

Allow 20 minutes for this section

Section II

Total Marks (40)

Attempt all questions 21, 22, 23, 24

Allow about 1 hour for this section

Section III

Total Marks (20)

Attempt essay question 25

Allow 40 minutes for this section

This paper MUST NOT be removed from the examination room.

Student Name: _____

SECTION I

Total Marks: 20 marks

Attempt questions 1 -20

Answer all questions on the answer sheet provided.

- 1) Which of the following factors could cause the Reserve Bank of Australia to lower the cash rate?
 - (A) A decrease in the unemployment rate and a decrease in economic growth
 - (B) An increase in the unemployment rate and an increase in economic growth
 - (C) A decrease in retail spending and an increase in economic growth
 - (D) A decrease in retail spending and a decrease in economic growth

- 2) What type of taxation system is characterised by the marginal rate of taxation exceeding the average rate of taxation as income rises?
 - (A) Progressive taxation
 - (B) Proportional taxation
 - (C) Regressive taxation
 - (D) Indirect taxation

- 3) Which market structure is characterised by each seller producing a homogeneous product and freedom of entry and exit into and out of the industry?
 - (A) Oligopoly
 - (B) Monopoly
 - (C) Perfect competition
 - (D) Monopolistic competition

- 4) Which of the following bodies is responsible for regulating companies listed on the Australian Securities Exchange?
 - (A) The Australian Securities and Investment Commission (ASIC)
 - (B) The Australian Prudential Regulation Authority (APRA)
 - (C) The International Monetary Fund (IMF)
 - (D) Reserve Bank of Australia (RBA)

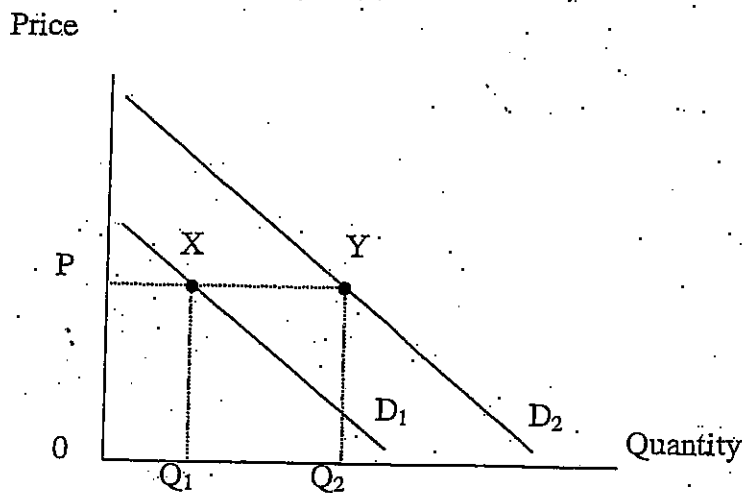
5) What would be the impact on the rate of unemployment if people retrenched from their jobs did not actively seek employment?

- (A) The unemployment rate would be lower.
- (B) The unemployment rate would be higher.
- (C) The rate of underemployment would be higher
- (D) There would be no change in the unemployment rate.

6) Which of the following describes a *public good*?

- (A) A rival good which is excludable
- (B) A rival good which is non-excludable
- (C) A non-rival good which is excludable
- (D) A non-rival good which is non-excludable

7). The following diagram shows the demand for snow ski helmets



What would cause the movement from X to Y?

- (A) A decrease in the price of snow ski helmets
- (B) An increase in imports of snow ski helmets
- (C) Government legislation to make snow ski helmets compulsory for children under 15 years of age
- (D) The expectation of a poor snow ski season

8) What is a major function of the Reserve Bank of Australia?

- (A) The prudential supervision of banks
- (B) The conduct of monetary policy
- (C) The regulation of the share market
- (D) The supervision of Non Bank Financial Intermediaries

9) The following table shows labour market statistic for a hypothetical economy.

Population	21,500,000
Working Age Population	15,000,000
Employed Persons	10,500,000
Unemployed Persons	500,000

What is the participation rate for this country?

- (A) 49%
- (B) 70%
- (C) 73%
- (D) 51%

10) An example of a negative externality in production is

- (A) A rise in cost of production due to an appreciation of the Australian dollar
- (B) The loss of trained staff due to a new competitor poaching staff
- (C) Air pollution due to carbon omissions from production methods used by the manufacture
- (D) A rise in the wage rate due to an increase in the minimum wage rate

11) What would be the likely effect of higher petrol prices and increased interest rates on the Federal Government's budget?

- (A) A budget deficit would increase
- (B) Government revenue will increase
- (C) Welfare payments will decrease
- (D) A budget surplus would increase

12) The following table shows a hypothetical demand schedule.

Price	Quantity Demanded
\$20	60
\$30	45

What is the price elasticity of demand for this product over the price range \$20 to \$30?

- (A) Zero price elasticity
- (B) Unit price elasticity
- (C) Price elastic
- (D) Price inelastic

13) Which of the following will enable the Australian government to achieve a more equitable distribution of income in the economy?

- (A) The operation of automatic stabilisers
- (B) A budget surplus
- (C) The use of monetary policy and interest rates
- (D) The use of progressive taxation and transfer payments

14) Which of the following best describes the effect of an increase in migration on the size of the labour force.

- (A) The labour force would increase
- (B) The labour force participation rate would increase
- (C) The population size would decrease
- (D) The labour force would remain unchanged

15) The following table shows data for a hypothetical economy.

Nominal Interest Rate	8.0%
Growth in Real GDP	1.5%
Annual Inflation Rate	2.75%

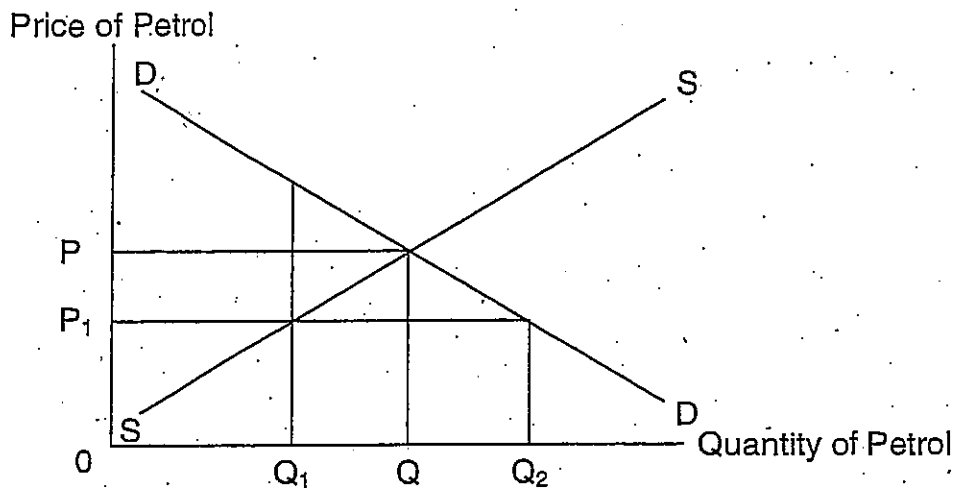
What is the real interest rate in this economy?

- (A) 5.25%
- (B) 3.75%
- (C) 8.0%
- (D) 6.5%

16) Which of the following is a type of short term debt security issued by companies?

- (A) A Treasury Note
- (B) A mortgage loan
- (C) A commercial bill
- (D) An ordinary share

17) The following diagram shows the imposition of a price ceiling of P_1 for petrol by the government.



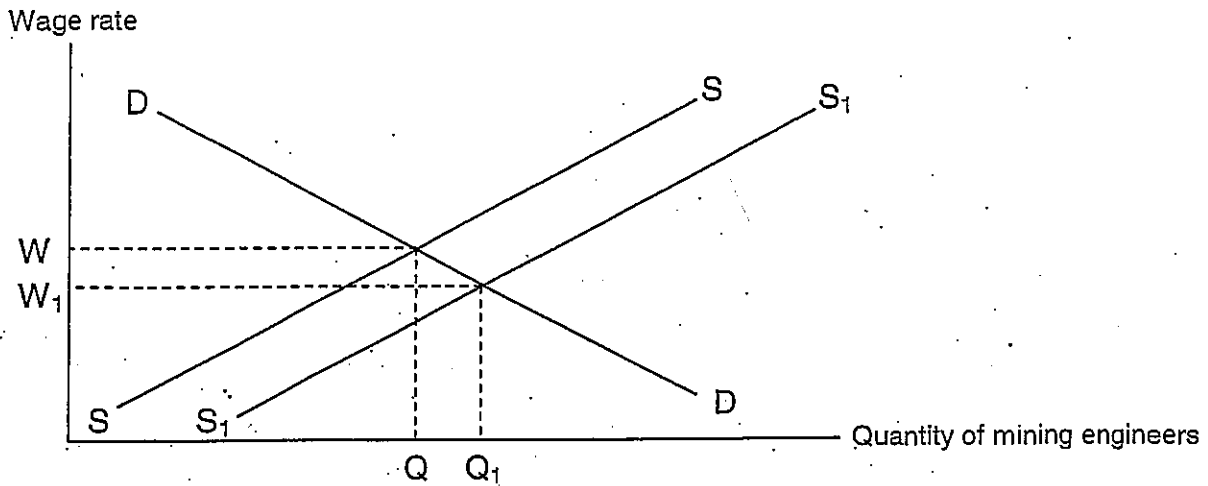
What situation exists in the petrol market as a result of the price ceiling of P_1 ?

- (A) A surplus of petrol of Q_1Q_2
- (B) A shortage of petrol of Q_1Q
- (C) A shortage of petrol Q_1Q_2
- (D) Equilibrium of price P and quantity Q of petrol

18) Which of the following is referred to as currency?

- (A) Notes and coins
- (B) Bank deposits
- (C) Reserve bank deposits
- (D) Notes, coins and bank deposits

19) The following diagram shows the labour market for mining engineers.



Which of the following factors could cause a movement from SS to S₁S₁ in the diagram?

- (A) An increase in the demand for mining engineers
- (B) A decrease in the wage rate for mining engineers
- (C) An increase in mining industry output
- (D) An increase in graduate mining engineers

20) The following table shows selected data for four hypothetical economies.

Country	GDP (\$ billions)	Gini Coefficient
Davisland	20 000	0.36
Cranstown	186 000	0.72
Burgessbay	54 000	0.54
McCelland	100 000	0.45

Which economy has the greatest income equality?

- (A) Davisland
- (B) Cranstown
- (C) Burgessbay
- (D) McCelland

SECTION II

Total Marks: 40 marks

Attempt Questions 21 -24

Answer all questions in the space provided

Question 21 (10 marks)

Study the following table then answer the questions below.

The following table shows data on the composition of Australia's workforce between 2007-08 and 2009-10.

Year	Part Time Employed Persons	Full time Employed Persons	Total Unemployed Persons
2007-08	3,051,100	7,664,600	473,800
2008-09	3,150,600	7,611,800	662,900
2009-10	3,306,000	7,794,700	598,400

Source: Australian Bureau of Statistics (2010), Australian Economic Indicators, August 2010

(a) Calculate the unemployment rate in 2009-10 (1 mark)

(b) Calculate the size of the Australian workforce in 2008-09 (1 mark)

(c) Explain THREE causes of unemployment in the Australian economy (3 marks).

(d) Analyse TWO labour wage market outcomes in the Australian economy, e.g. gender (5 marks).

Question 22 (10 marks)

The following extract of text refers to Australia's financial system.

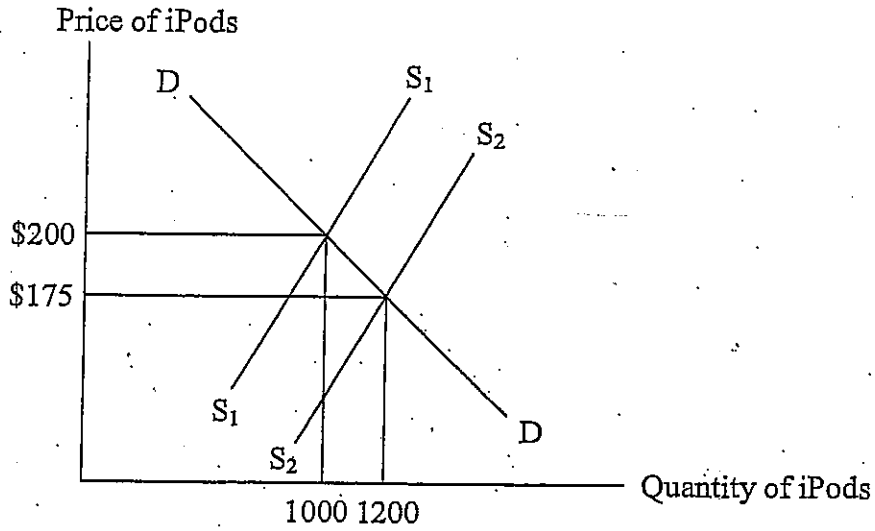
"From day to day, the Bank's Domestic Markets Department has the task of maintaining conditions in the money market so as to keep the cash rate at or near an operating target decided by the Board. The cash rate forms the base on which the structure of interest rates in the economy is built. Changes in monetary policy mean a change in the operating target for the cash rate, and hence a shift in the interest rate structure prevailing in the financial system." (Source: Reserve Bank of Australia (2011), www.rba.gov.au).

(a) Distinguish between *primary* and *secondary* financial markets (2 marks).

(b) Explain how the Reserve Bank of Australia utilises Government Securities to influence the cash rate (3 marks).

Question 23 (10 marks)

The following diagram represents the demand and supply of iPods.



(a) Define the law of supply (1 mark).

(b) Outline the effect on demand of a decrease in the price of iPods from \$200 to \$175 (2 marks).

(c) Outline TWO factors which would cause the supply of iPods to move from S_1 to S_2 (2 marks).

(d) Describe TWO factors which would influence the supply elasticity of iPods (2 marks).

(e) Discuss the significance of the price elasticity of demand for governments and firms (3 marks).

End of Question 23

Question 24 (10 marks)

Study the following table then answer the questions below.

Tax rates 2010-11

Taxable income	Tax on this income
0 - \$6,000	Nil
\$6,001 - \$37,000	15c for each \$1 over \$6,000
\$37,001 - \$80,000	\$4,650 plus 30c for each \$1 over \$37,000
\$80,001 - \$180,000	\$17,550 plus 37c for each \$1 over \$80,000
\$180,001 and over	\$54,550 plus 45c for each \$1 over \$180,000

(a) What is meant by a progressive income tax system? (1 mark)

(b) Which term best describes the incidence of this tax? (1 mark)

(c) What is the marginal rate of tax (MRT) for a person earning \$95 000 per year in 2010 – 11? (1 mark)

(d) Calculate the Average Rate of tax (ART) for a person earning \$85 500 per year in 2010- 11 -show working. (2 marks)

(e) How does the government attempt to redistribute income through taxation and social security payments? (2 marks)

(f) Distinguish between a proportional tax and a regressive tax and give an example of each. (3 marks)

End of Question 24

SECTION III

Total Marks : 20 marks

Attempt Question 25

Answer the question on the writing paper provided.

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

- **Use your knowledge and economic information provided**
 - **Apply economic terms, concepts, relationships and theory**
 - **Present a sustained, logical and well structured answer to the question**
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Question 25 (20 marks)

Explain how the price mechanism determines equilibrium prices and quantities in the market.
Discuss why and how the government intervenes in certain markets.

End of Exam