

SYDNEY TECHNICAL HIGH SCHOOL



STUDENT NUMBER:

2013
Assessment 4
Preliminary Examination

Economics

General Instructions

- Reading time - 5 minutes
- Working time - 2 hours
- Write using black or blue pen
- Board –approved calculators may be used.
- Use Multiple choice answer sheet provided
- **WRITE YOUR NAME ON THIS PAGE ONLY**

Total marks - 70

Section I - Pages 2-8

Total marks (20)

Attempt Questions 1 -20

Allow about 35 minutes for this section

Section II - Pages 9--14

Total marks (30)

Attempt Questions 21 -23

Allow about 50 minutes for this section

Section III- Pages 15

Total marks (20)

Attempt Question 24

Allow about 35 minutes for this section

This paper MUST NOT be removed from the examination room

STUDENT NAME:.....

SECTION 1

20 marks

Attempt questions 1- 20

ANSWER IN THE ANSWER SHEET PROVIDED

Allow for 35 minutes for this section.

1 When are two goods, A and B, considered to be complementary?

- (A) A rise in the price of both goods has no effect on demand
- (B) A fall in the price of both goods has no effect on demand
- (C) A fall in the price of A causes demand for B to increase
- (D) A rise in the price of A causes demand for B to increase

2 Which of the following would be leakages and injections for the circular flow of income?

	<i>Leakages</i>	<i>Injections</i>
(A)	Government expenditure	Investment
(B)	Imports	Taxation
(C)	Savings	Imports
(D)	Taxation	Exports

3 What economic concept outlines that in a free market situation, the purchaser and user of goods and services determines the type and volume of output?

- (A) Supply and demand
- (B) Consumer sovereignty
- (C) Opportunity cost
- (D) Consumer expectations

4 Which of the following represents a monopolistic competition market structure?

- (A) There are no barriers to entry and each firm's product is differentiated
- (B) There are no barriers to entry and products are identical
- (C) There are no close substitutes and a single supplier
- (D) There are significant barriers to entry and a few major suppliers

5 Which of the following is considered to be a feature of a merit good?

- (A) Goods that are socially desirable
- (B) Goods that are in high demand
- (C) Goods that provide excellent value for money
- (D) Goods that are environmentally friendly

6 What would happen to wages and employment when the demand for labour increases in a certain industry?

	<i>Wages</i>	<i>Employment</i>
(A)	Rise	Increases
(B)	Fall	Decreases
(C)	Rise	Expands
(D)	Fall	Contracts

7 A country has a total population of 10 million. Of this, 4 million are not of working age. There are 3 million full-time workers and 1 million casual and part-time workers. There are .5 million (500,000) people over 15 years of age unemployed but actively seeking work.

What is the unemployment rate and the labour force participation rate?

	<i>Unemployment rate</i>	<i>Labour force participation rate</i>
(A)	33.3%	66.7%
(B)	11.1%	75.0%
(C)	62 %	85%
(D)	45%	72%

- 8** Which of the following describes one role of the Council of Financial Regulators?
- (A) A government department that administers company and security laws
 - (B) A non-regulatory collaborative body advising the government on effective structures of the financial system
 - (C) A regulatory body that regulates banks and the stock exchange
 - (D) A statutory body that implements monetary policy

Question 9 is based on the following table.

<i>Price</i>	<i>Quantity</i>
1	20
2	16
3	15
4	12
5	8

- 9** Over which price range is relatively elastic demand experienced?
- (A) \$4 to \$5
 - (B) \$3 to \$4
 - (C) \$2 to \$3
 - (D) \$1 to \$2

Question 10 is based on the following production possibility schedule.

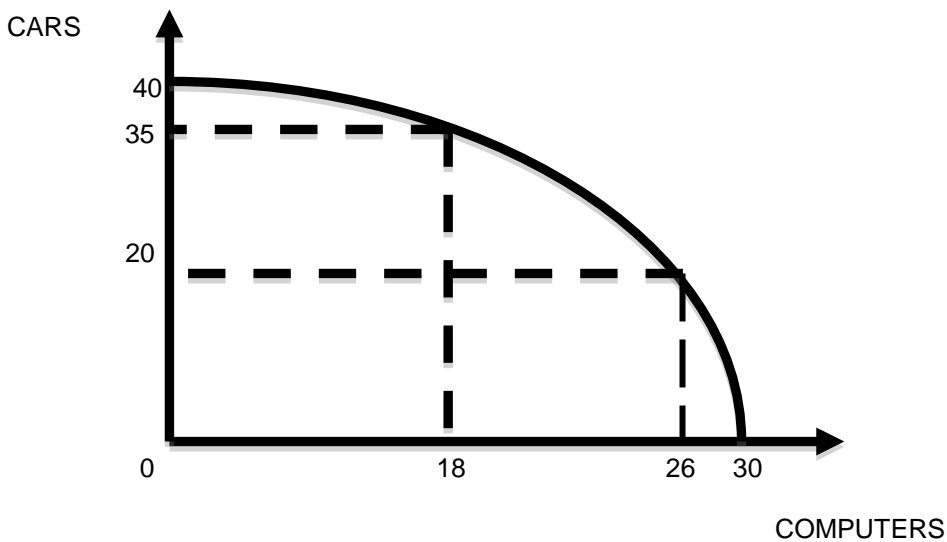
Combination	A	B	C	D
Cars	0	10	20	30
Iron ore	110	75	45	20

- 10** Assuming the economy is operating at Combination B, the opportunity cost of producing an extra 10 cars is?
- (A) 75 units of iron ore
 - (B) 45 units of iron ore
 - (C) 35 units of iron ore
 - (D) 30 units of iron ore

- 11** What income is generated from the factors of production?
- (A) wages, social security payments, commissions, interest
 - (B) wages, dividends, interest, transfer payments
 - (C) wages, rent, interest and profit
 - (D) wages, capital gains, commissions and savings.

- 12** Which of the following describe personal income tax?
- (A) Regressive and indirect
 - (B) Direct and progressive
 - (C) Consumption based and progressive
 - (D) Proportional and direct

- 13** This question is based on the diagram below showing the production possibility frontiers for a country producing both cars and computers.



What is the opportunity cost of producing the first 20 cars?

- (A) 1 computer.
- (B) 4 computers.
- (C) 18 computers.
- (D) 26 computers.

14 The following table shows selected data for a hypothetical closed economy “*Rochburg*”:

National Income (Y) (\$ billion)	Consumption (C) (\$ billion)
500	125
700	250
900	375
1100	500

What is the Marginal Propensity to Consume (MPC) for Rochburg?

- (A) MPC = 0.75
- (B) MPC = 1.25
- (C) MPC = 0.625
- (D) MPC = 1.38

15. From the information given in the table below, which of the following statements is true?

	\$ billion
Savings	75
Investment	100
Taxation	95
Government spending	90
Imports	50
Exports	30

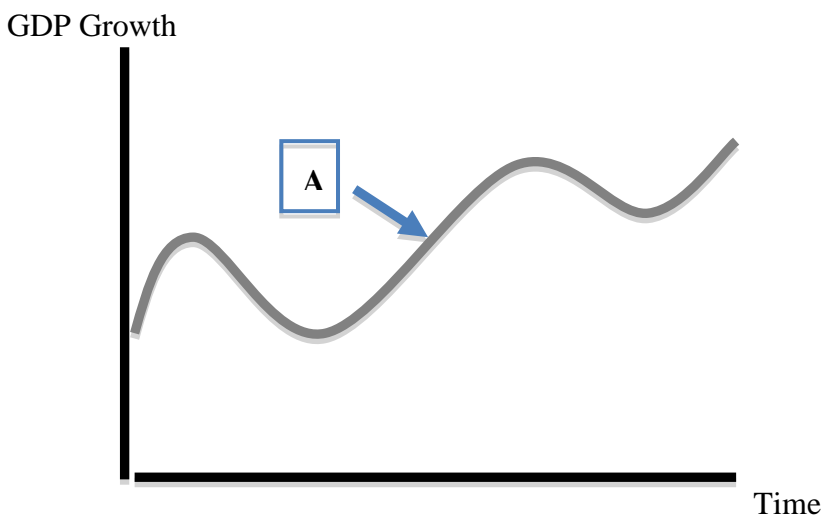
- (A) The economy will contract because of the budget surplus and trade deficit.
- (B) The economy will expand because investment is greater than savings.
- (C) The economy will contract because leakages are greater than injections.
- (D) The economy will neither expand nor contract at this time.

16 . Why do governments put extra taxes on alcohol and petrol?

- (A) The demand for these goods tends to be relatively elastic.
- (B) The demand for these goods tends to be relatively inelastic.
- (C) The demand for these goods tends to be of unit elasticity.
- (D) The demand for these goods tends to be perfectly elastic.

17. Which factor will influence the supply of labour in an industry?
- (A) The education, skills and experience required for certain jobs.
 - (B) The relative cost of labour to capital.
 - (C) The level of output of firms.
 - (D) The productivity of labour.

18. The following graph is for a hypothetical economy.



Which of the following is most likely to occur at point A on the business cycle?

- (A) Rising quality of life and falling income levels.
- (B) Rising unemployment and falling quality of life
- (C) Rising income levels and falling unemployment.
- (D) None of the above.

19. Paul becomes unemployed because of a decrease in demand for goods and services in the economy. This means that Paul is:

- (A) Structurally unemployed.
- (B) Seasonally unemployed.
- (C) Long-term unemployed.
- (D) Cyclically unemployed.

20. Which of the following is an example of a primary market transaction in the share market?

- (A) Selling shares and making a capital gain.
- (B) The Government issuing Treasury bills to the public.
- (C) Buying newly issued shares.
- (D) The purchase and sale of foreign currency.

End of Section 1

SECTION II

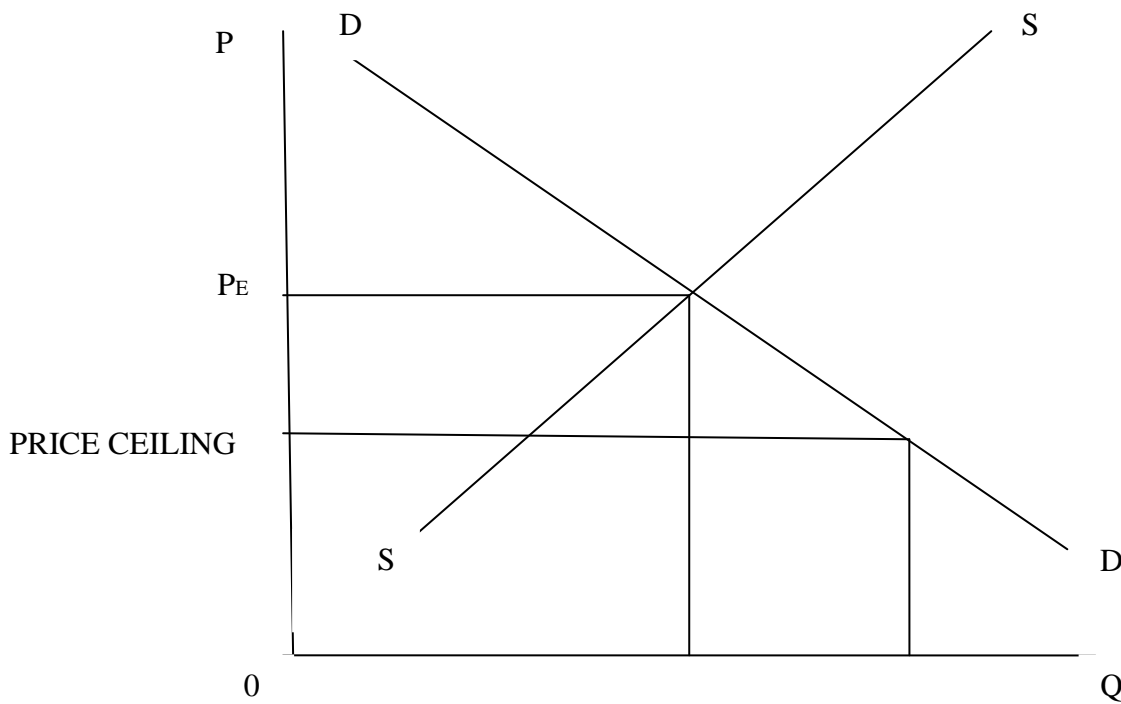
Total Marks: 30 marks

Attempt Questions 21 -23

Answer all questions in the space provided

Question 21 (10 marks)

The following diagram illustrates a 'price ceiling' for a hypothetical market in Australia



A) Define the term 'market failure'. **1**

B) Describe a situation in which the Federal Government might impose a price ceiling. **2**

C) Besides price intervention explain and justify one other method that the Federal Government could use to intervene in the market. **3**

D) Explain TWO reasons for government intervention in markets in response to market failure. **4**

Question 22 (10 marks)

Study the following table then answer the questions below.

The labour force statistics are for a hypothetical economy.

Total population	940 000
Hidden unemployment (est)	515 000
Working age population	700 000
Unemployed persons, actively seeking work	70 000

A) Calculate the labour force participation rate for the economy above. **1**

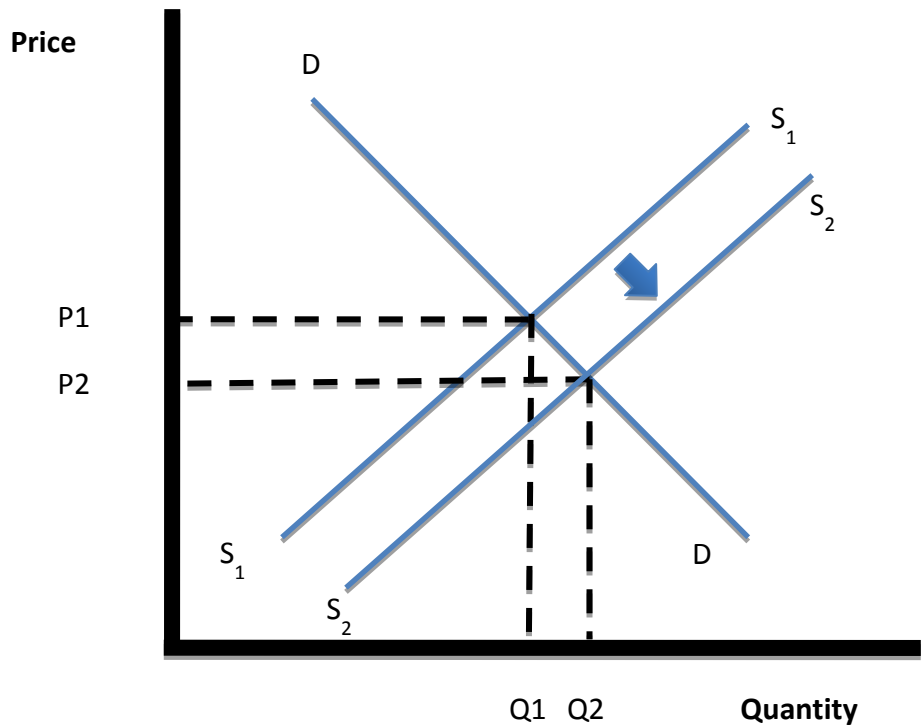
B) Explain TWO types of unemployment. **2**

C) How might an increase in the school leaving age affect the labour force participation rate and the official unemployment rate? **3**

D) Outline TWO factors that affect the DEMAND for labour and TWO factors that affect the SUPPLY of labour. **4**

Question 23 (10 marks)

The following diagram is the hypothetical supply and demand curve for good **X**.



A) Define the “price mechanism”. 1

B) Identify the change to equilibrium price and quantity from the movement of the supply curve from S1S1 to S2S2. 2

C) Outline TWO possible reasons for the movement of the supply curve from S1S1 to S2S2 3

D) Explain TWO factors affecting the elasticity of supply of product X.

4

END OF SECTION II

SECTION III

Total Marks : 20 marks

Attempt Question 24

Answer the question on the writing paper provided.

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
-

Question 24 (20 marks)

Outline the economic functions of the Australian government and explain the role of monetary and fiscal policies in stabilising economic activity.

SECTION 1

20 Marks

Attempt questions 1 - 20

Allow about 30 minutes for this part

Select the alternative A, B, C or D that best answers the questions and indicate your choice with a cross (X) in the appropriate space on the grid below.

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

SECTION 1

20 Marks

Attempt questions 1 - 20

Allow about 30 minutes for this part

Select the alternative A, B, C or D that best answers the questions and indicate your choice with a cross (X) in the appropriate space on the grid below.

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

Question 21 (10 marks)

(a) (1 mark)

Criteria	Mark
• Correctly defines market failure	1

Answers could include:

- When the price mechanism fails to take into account indirect costs of production (social costs) or social benefits from production and consumption of goods and services.

(b) (2 marks)

Criteria	Mark
• Comprehensively provides ONE valid reason for government imposing a price ceiling	2
• Outlines briefly ONE reason for government imposing a price ceiling	1

Answers could include:

Price ceiling set a maximum price that can be charged for a particular product. Reasons include

- Products that are necessities and the government believes the price mechanism will set the price too high
- If a product is produced by a monopoly and the government believes these are important for society, they may set a price ceiling to ensure more people can afford it.

(c) (3 marks)

Criteria	Mark
• Comprehensively explains a ONE quantity intervention government action and provides a valid reason for the need for the intervention.	3
• Explain ONE quantity intervention government action but fails to provide a valid reason for its implementation or • Outlines ONE quantity intervention and provides a valid reason for the intervention	2
• Outlines briefly a government quantity intervention	1

Answers could include:

Market failure results in less than efficient outcomes,

Over production resulting in negative externalities such as pollution or environmental damage, government intervention could include:

- Laws/ regulation to restrict behaviour
- Taxes
- Trading Emission schemes

Under production for goods that provide positive externalities, government action could include:

- Provision of public goods
- Subsidies to encourage provision

(d) (4 marks) *Outcomes Assessed: P3, P5, P8*

Criteria	Mark
• Comprehensively provides TWO valid reasons for government interfering in markets in response to market failure	4
• Provides TWO appropriate reasons for government interfering with the markets in response to market failure	3
• Outlines briefly TWO reasons for government interfering in markets in response to market failure	2
• Provides ONE reasons for government interfering in markets in response to market failure	1

Answers could include:

Market failure results in less than efficient outcomes such as :

- Misallocation of resources – over production, under production
- Externalities
- Redistribution of income – transfer payments/ taxation
- Reducing market power – increasing competition

Question 22

a) Disregard question

b) (2 marks)

Criteria	Mark
• Clearly explains TWO types of unemployment	2
• Clearly explains ONE type of unemployment and identifies another Or	1
• Outlines TWO types of unemployment	

Answers could include:

- Cyclical
- Seasonal
- Structural
- Frictional
- Hidden
- Hardcore
- Long term

c) (3 marks)

Criteria	Mark
<ul style="list-style-type: none"> Clearly explains how an increase in school leaving age might affect labour force participation and unemployment 	3
<ul style="list-style-type: none"> Demonstrates a limited understanding of how an increase in the school leaving age might affect the labour force participation rate and unemployment 	2
<ul style="list-style-type: none"> State an effect on either labour force participation or unemployment of an increase in school leaving age 	1

Sample answer:

An increase in the school leaving age may result in more young people staying at school and not working or seeking work and therefore not being counted in the labour force or unemployment statistics. This will result in a lower participation and unemployment rate.

Answers could include:

- Working-age population
- Labour force

↓ participation ↓ labour force
 ↓ unemployment
 ↓ supply → same demand

d) (4 marks)

Criteria	Mark
<ul style="list-style-type: none"> Outlines 2 factors affecting demand and 2 factors affecting supply of labour 	4
<ul style="list-style-type: none"> Outlines 2 factors affecting demand and 1 factor affecting supply or, Outlines 1 factor affecting demand and 2 factors affecting supply 	3
<ul style="list-style-type: none"> Outlines 1 factor affecting supply and 1 factor affecting demand 	2
<ul style="list-style-type: none"> Identifies 2 factors affecting demand and 2 factors affecting supply 	1

Answers could include:

Factors affecting demand:

- Economic conditions affecting demand for G + S
- Conditions in the firms industry
- Demand for an individual firms products

- Cost of other inputs (particularly capital)
 - productivity

Factors affecting supply:

- Pay levels
- Working conditions
- Education/ skills and experience
- Mobility of labour
- Participation rate
- Other – eg government policies

Question 23 10 marks

a) (1 mark)

Criteria	Mark
<ul style="list-style-type: none"> Correctly defines the price mechanism 	1

Answers could include:

- The process by which the forces of **supply and demand** interact to determine the market **price** at which **goods and services** are sold and the **quantity** produced.

b) (2 mark)

Criteria	Mark
<ul style="list-style-type: none"> Correctly identifies the increase in supply and resulting decrease of equilibrium price from P1 to P2 and increase in equilibrium quantity from 	2
<ul style="list-style-type: none"> Correctly identifies either impact on price OR quantity <p>OR</p> <ul style="list-style-type: none"> Fails to identify increases and decreases but does specify the movements from P1 to P2 and from Q1 to Q2 	1

Answers could include:

- When there is an increase in supply from S1 to S2, the equilibrium price will fall from P1 to P2 and the equilibrium quantity will rise from Q1 to Q2

c) (3 marks)

Criteria	Mark
<ul style="list-style-type: none"> Correctly identifies an increase in supply and outlines TWO valid reasons for the movement of the supply curve 	3
<ul style="list-style-type: none"> Correctly identifies an increase in supply and outlines ONE valid reason for the movement <p>OR</p> <ul style="list-style-type: none"> Fails to identify an increase in supply and outlines TWO valid reasons for the movement 	2
<ul style="list-style-type: none"> Identifies TWO valid reasons for the movement of supply curve 	1

Answers could include:

An increase in supply has occurred resulting in a movement of the supply curve to the right from S1 to S2. Reasons for the increase in supply could include:

- A fall in the price of other goods which makes the production of other goods less profitable
- An improvement in technology used in the production process
- A fall in the cost of factors of production
- An increase in the quantity of resources available to be used in production
- Climatic conditions or seasonal changes that is more favourable to the production process.

d) (4 marks)

Criteria	Mark
• Clearly explains TWO factors affecting the supply of product X	4
• Clearly explain ONE factor affecting supply and outlines another factors	3
• Outlines TWO factors affecting supply	2
• Outlines ONE factor affecting supply	

Answers could include:

- Time lags after a price change - immediately virtually inelastic, long run elastic as suppliers can increase inputs such as machinery/ factory ect
- The ability to hold and store stock
- Excess capacity