

2020
Higher School Certificate
Year 11 Examination

Economics

General Instructions

- Reading time – 5 minutes
- Working time – 2 hours
- Write using black pen
- NESA approved calculators may be used
- Write your student number and/or name at the top of every page

Total marks – 80

Section I – Pages 2–10

20 marks

- Attempt Questions 1–20
- Allow about 20 minutes for this section

Section II – Pages 11–14

20 marks

- Attempt Questions 21–22
- Allow about 30 minutes for this section

Section III – Page 15

20 marks

- Attempt either Question 23 or Question 24
- Allow about 35 minutes for this section

Section IV – Page 16

20 marks

- Attempt either Question 25 or Question 26
- Allow about 35 minutes for this section

This paper MUST NOT be removed from the examination room

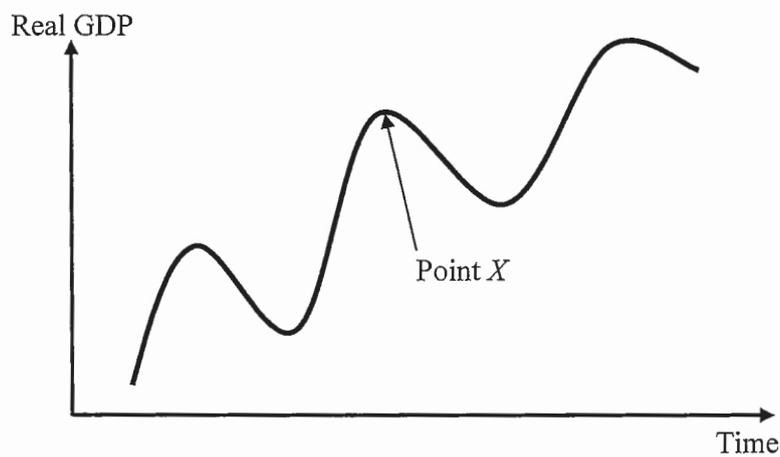
STUDENT NUMBER/NAME:

Section I**20 marks****Attempt Questions 1–20****Allow about 20 minutes for this section**

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

	A	B	C	D
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- 1 Which of the following is a consequence of the economic problem?
- A. Businesses have to choose between the unlimited resources available when deciding how to produce.
 - B. Businesses have to decide how to distribute goods based on the needs and wants of consumers.
 - C. Businesses have to decide which goods and services consumers should purchase.
 - D. Businesses have to decide what to produce in response to consumer preferences.
- 2 The graph shows an economy operating at Point X in the business cycle.

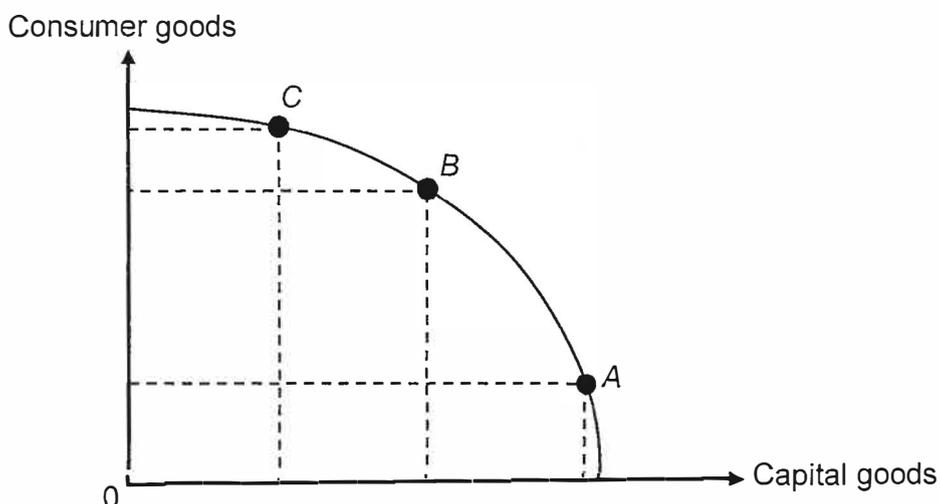


When the economy is at Point X, which combination of actions is most likely to be adopted by the Australian government and the Reserve Bank of Australia to stabilise economic activity?

	<i>Australian government action</i>	<i>Reserve Bank of Australia action</i>
A.	An increase in the budget deficit	An increase in the cash rate
B.	A decrease in the budget deficit	A decrease in the cash rate
C.	An increase in the budget surplus	An increase in the cash rate
D.	A decrease in the budget surplus	A decrease in the cash rate

- 3 All other things being equal, which of the following is NOT a factor influencing the price elasticity of demand?
- A. If the supply of the good is greater than demand for the good
 - B. The availability of substitutes for the product
 - C. The price of a complementary product for the good
 - D. Whether the good is a necessity

- 4 The diagram shows the production possibility frontier (PPF) for a hypothetical economy.



Which of the following is true for this economy?

- A. A movement from Point A to Point B results in higher living standards in the present.
 - B. A movement from Point A to Point B results in higher living standards in the future.
 - C. A movement from Point C to Point B will result in higher living standards in the present.
 - D. A movement from Point C to Point B will result in lower living standards in the future.
- 5 Which of the following government agencies currently regulates industrial relations in Australia?
- A. Australian Fair Pay Commission
 - B. Australian Industrial Relations Commission
 - C. Australian Securities and Investments Commission
 - D. Fair Work Commission

- 6 What are the likely benefits of an overall improvement in the level of productivity for an economy and for a firm?

	<i>The economy</i>	<i>The firm</i>
A.	Improvement in international competitiveness	Higher production costs
B.	Improvement in international competitiveness	Lower production costs
C.	Decline in international competitiveness	Higher production costs
D.	Decline in international competitiveness	Lower production costs

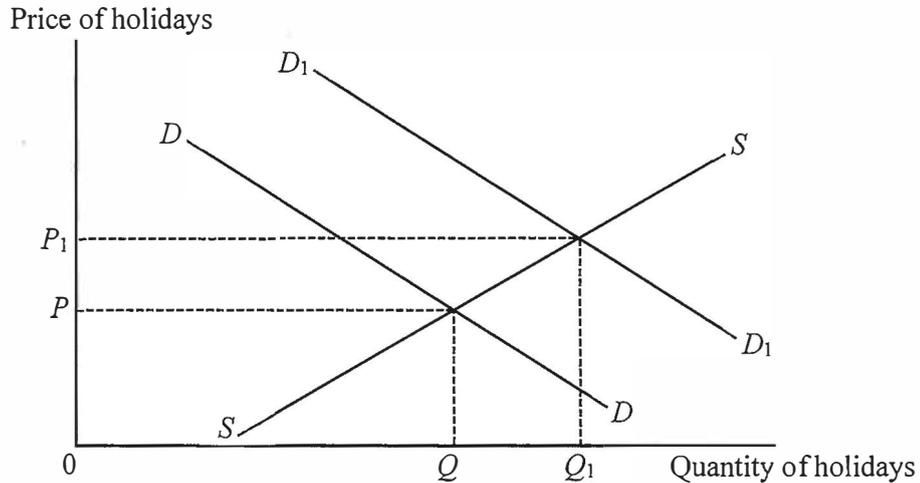
- 7 The table below shows hypothetical data for an economy.

<i>Category</i>	<i>Amount (\$ million)</i>
Exports	90
Government expenditure	70
Imports	70
Investment	100
Savings	40
Taxation	60

Which of the following statements is likely to be true about the state of the economy?

- A. There is a downturn in the level of economic activity and an increase in the level of unemployment.
- B. There is a downturn in the level of economic activity and a decrease in the level of unemployment.
- C. There is an upturn in the level of economic activity and an increase in the level of unemployment.
- D. There is an upturn in the level of economic activity and a decrease in the level of unemployment.
- 8 Which organisation would most likely make a submission to the Fair Work Commission at the Annual Wage Review on behalf of employees?
- A. Australian Council of Trade Unions
- B. Fair Work Ombudsman
- C. Federal Court of Australia
- D. Australian Retailers' Association

9 The following diagram shows a change in the demand for holidays.



Which of the following factors could cause a movement from DD to D_1D_1 ?

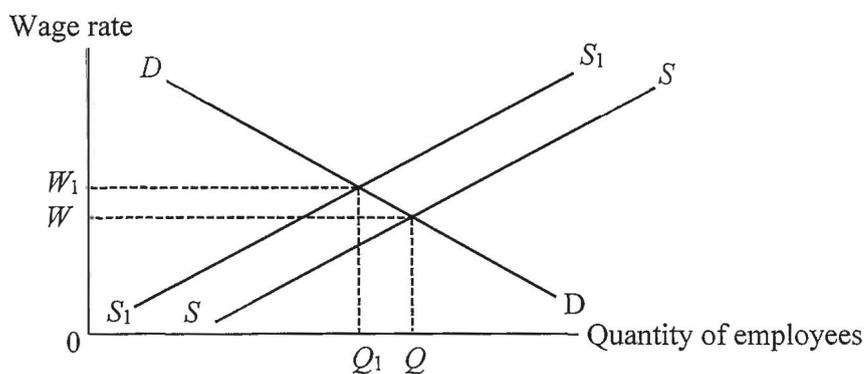
- A. An increase in the price of holiday homes
 - B. An increase in the price of air travel
 - C. An increase in household disposable incomes
 - D. An increase in the price of holiday rents
- 10 The following table shows the changes in the demand for BAAA Sheepskin Car Seat Covers over a price range from \$250 to \$400.

Price (\$)	Quantity demanded	$P \times Q$	UP?DOWN
250	1000		
300	900		
350	700		
400	500		

What is the price elasticity of demand when the price of BAAA Sheepskin Car Seat Covers changes from \$300 to \$350?

- A. Elastic
- B. Inelastic
- C. Unit elasticity
- D. Perfectly elastic

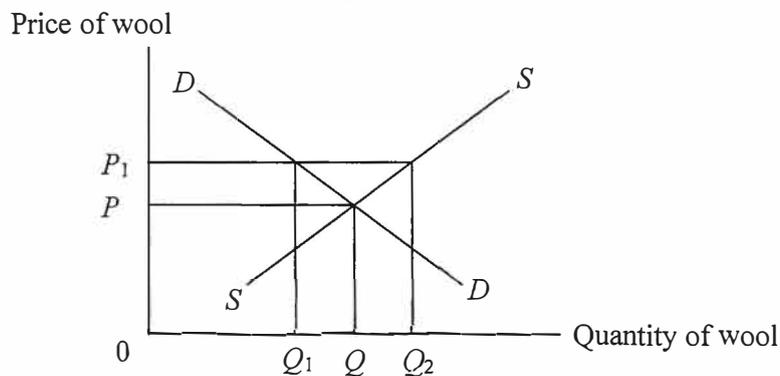
- 11 Which of the following would be a possible response by the Reserve Bank of Australia to an increasing rate of unemployment in the Australian economy?
- Easing monetary policy by raising the policy interest rate corridor
 - Tightening monetary policy by lowering the policy interest rate corridor
 - Easing monetary policy by lowering the policy interest rate corridor
 - Tightening monetary policy by raising the policy interest rate corridor
- 12 The following diagram shows the labour market for employees in the catering and hospitality industry.



Which of the following factors could cause a movement from SS to S_1S_1 ?

- A decrease in the number of school leavers looking for work in the catering and hospitality industry
 - An increase in the wage rate for employees in the catering and hospitality industry
 - A decrease in the sales revenue of firms in the catering and hospitality industry
 - A decrease in the training qualifications required by employees to work in the catering and hospitality industry
- 13 Which of the following would reduce consumer sovereignty in a market?
- Informative advertising
 - Persuasive advertising
 - Developing high quality durable goods
 - Offering extended warranties with products

- 14 What is a key difference between oligopoly and monopolistic competition?
- An oligopoly has a larger number of firms than monopolistic competition.
 - Monopolistic competition involves a homogeneous product while oligopoly requires a differentiated product.
 - Monopolistic competition involves a relatively large number of firms while oligopoly is characterised by a few large firms.
 - Monopolistic competition has more substantial barriers to entry than oligopoly.
- 15 The following diagram shows the market for wool in a hypothetical economy.



If the government sets a minimum price of P_1 for wool, what are the outcomes for woolgrowers?

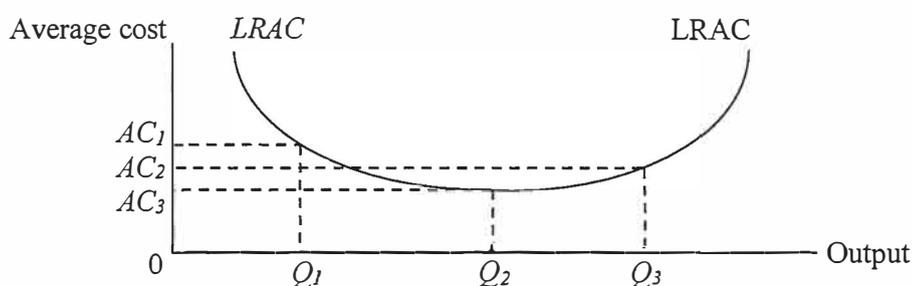
- P_1 is a ceiling price and there is a shortage of wool of Q_1Q_2 .
 - P_1 is a floor price and there is a surplus of wool of Q_1Q_2 .
 - P_1 is a ceiling price and there is surplus of wool of Q_1Q_2 .
 - P_1 is a floor price and there is a shortage of wool of Q_1Q_2 .
- 16 A company gets approval to expand its coal mine operations which will most likely impact on the environment and the community.

What are the most likely impacts of this decision?

- A negative externality will arise and the social benefit accrues to the company.
- A positive externality will arise and the social benefit accrues to the company.
- A negative externality will arise and the social cost will be borne by the community.
- A positive externality will arise and the private cost will be borne by the community.

- 17 Which of the following institutions is NOT part of the Australian Council of Financial Regulators?
- A. The Reserve Bank of Australia
 - B. The Australian Tax office
 - C. The Australian Prudential Regulation Authority
 - D. The Australian Treasury

- 18 The following diagram shows a firm's long run average cost curve (LRAC).



If a firm increases its output from Q_1 to Q_2 , which of the following situations is it experiencing?

- A. Internal diseconomies of scale and technical optimum
 - B. Internal economies of scale and technical optimum
 - C. External economies of scale and increasing returns to scale
 - D. External diseconomies of scale and decreasing returns to scale
- 19 The following table shows selected data for the labour market of a hypothetical economy.

<i>Full-time employed persons</i>	<i>Part-time employed persons</i>	<i>Unemployed persons</i>	<i>Population 15 years and over</i>
8,500,000	3,900,000	900,000	21,000,000

What is the unemployment rate in this economy?

- A. 4.2%
- B. 6.8%
- C. 10.5%
- D. 23.0%

- 20 In a country experiencing a pandemic the government decides to shut down many parts of the economy. This causes a significant downturn in the demand side and supply side of the economy.

Which of the following government policies is most likely to be used to counter the downturn?

- A. A reduction in minimum wages to encourage employment
- B. A reduction in wages to lower production costs and increase business profits
- C. A change in monetary policy to increase interest rates and raise consumer spending
- D. Allowing an increase in the budget deficit due to increased government spending

STUDENT NUMBER/NAME:

Section II

20 marks

Attempt BOTH Questions 21 AND 22

Allow about 30 minutes for this section

Answer the questions in the spaces provided. These spaces provide guidance for the expected length of response.

Question 21 (10 marks)

Marks

(a) Define the term “*interest rates*”.

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(b) Outline how interest rates are determined.

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Question 21 continues on the next page

STUDENT NUMBER/NAME:

Question 21 (continued)

Marks

(c) Discuss the likely impact of a reduction in interest rates on the Australian economy.

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(d) Explain the role of the Council of Financial Regulators in the Australian financial system.

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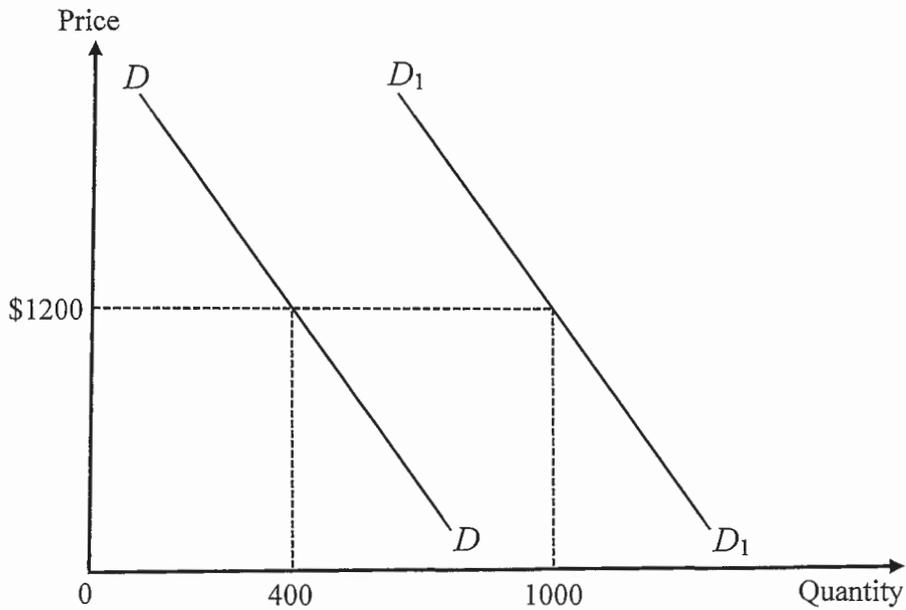
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End of Question 21

Question 22 (10 marks)

Marks

The graph shows the demand for INhouseFit multi-function home gym stations (IHF).



- (a) With reference to the diagram, what is the term used to describe the movement of the demand curve for INhouseFit multi-function home gym stations from DD to D_1D_1 ? 1

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- (b) With reference to the diagram, what is the change in total revenue when demand for INhouseFit multi-function home gym stations changes from DD to D_1D_1 ? 1

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- (c) How may an increase in the cost of the factors of production impact on the supply of INhouseFit multi-function home gym stations to the market? 2

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Question 22 continues on the next page

Question 22 (continued)

Marks

- (d) Why might firms which sell INhouseFit multi-function home gym stations be interested in the price elasticity of demand for their product? **2**

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- (e) Explain how the forces of demand and supply interact in order to resolve non-equilibrium market situations and establish equilibrium in the market. **4**

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End of Question 22

STUDENT NUMBER/NAME:

Section III

20 marks

Attempt EITHER Question 23 OR Question 24

Allow about 35 minutes for this section

Answer the question in the writing booklet provided.

Start the question on a new page.

The expected length of the response is *approximately up to 600 words* or five written pages.

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 23 (20 marks)

Explain how market equilibrium is determined and how changes in the factors affecting demand and supply can affect market equilibrium price and quantity.

OR

Question 24 (20 marks)

Explain recent trends in the Australian labour market and their impact on labour market outcomes.

Section IV

20 marks

Attempt either Question 25 or Question 26

Allow about 35 minutes for this section

Answer the question in the writing booklet provided. Start the question on a new page.

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 25 (20 marks)

Describe the main goals of the firm and the role of firms in solving the economic problem. Examine the importance of investment and economies of scale in a firm's production process.

OR

Question 26 (20 marks)

To what extent can an economic understanding improve individuals' wellbeing? Explain with reference to contemporary situations in 2020.

End of paper