



## 2014 ECONOMICS

**FOR OFFICE  
USE ONLY**

SUPERVISOR CHECK	

Registration Number  
195579G  
SEQ 014  
Economics  
(Written Examination)

BIN  
001

**Thursday 13 November: 1.30 p.m.**

Time: 2 hours

Examination material: one 11-page question booklet  
one 8-page script book  
one SACE registration number label

*Approved dictionaries may be used.*

### Instructions to Students

1. You will have 10 minutes to read the paper. You must not write in your question booklet or script book during this reading time but you may make notes on the scribbling paper provided.
2. This paper is in two parts:  
**Part A** (Questions 1 to 4)  
Answer **all parts** of Questions 1 to 4 in the spaces provided in this question booklet.  
**Part B** (Questions 5 to 7)  
Answer **one** essay question from this part. Write your answer in the separate script book.
3. The allocation of marks is as follows:

Part A	45 marks
Part B	20 marks
Total	65 marks
4. Attach your SACE registration number label to the box at the top of this page. Copy the information from your SACE registration number label into the box on the front cover of your script book.
5. At the end of the examination, place your script book inside the back cover of this question booklet.

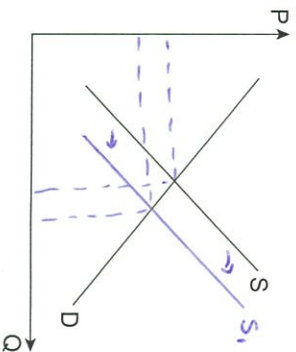
Pages: 11 Questions: 7
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- (b) Show on the diagram below the effect of Ms Chan's actions of bulk buying ingredients and specialising in one product.

Indicate the effect on price and quantity traded.

Market for Chan's chicken rice



(1 mark)

- (c) (i) State the likely price elasticity of demand for food in hawker food markets.

elastic.

(1 mark)

- (ii) Justify your answer to part (c)(i).

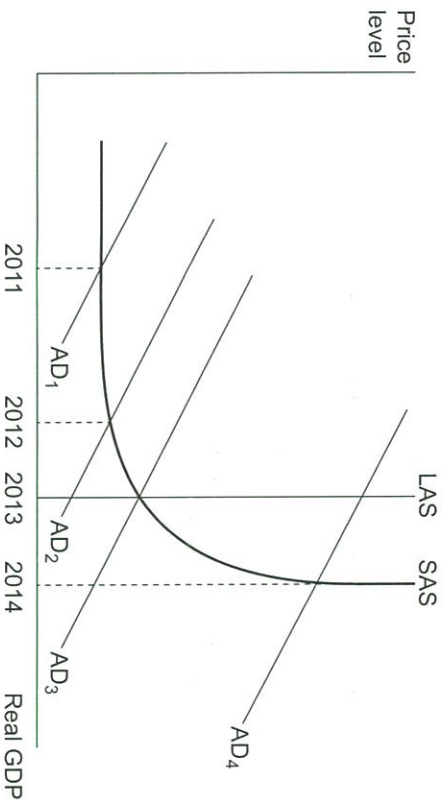
many close substitutes - not only small product differentiation.

(1 mark)

- (iii) 'Although selling significantly below the current average price could be profitable for an individual hawker, this would not be the case for the market as a whole.' Evaluate this statement.

the market as a whole would not benefit from the price of all food being lowered. The producers would sell at a loss & it would not ~~increase~~ <sup>necessity</sup> cause single stalls in the market to increase in income, since the entire lowered price would be the same for all of the market. It's important to monopolistic competition to product differentiate since changing price will not necessarily benefit many producers except one or two. The cost will run fit closely. (3 marks)

2. Refer to the following diagram, which shows an aggregate demand – aggregate supply diagram for the economy of Country A.



(a) State one macroeconomic objective that is not being achieved in:

(i) 2014.

price stability (1 mark)

(ii) 2012.

full employment (1 mark)

(b) (i) What type of economic indicator is business confidence?

leading indicator (1 mark)

(ii) Justify your answer to part (b)(i)

It gives some indication, as to where the economy is going - ~~where~~ (1 mark)

(c) Describe why governments use a range of indicators for economic management.

Composite indicators are ~~one~~ key in because single indicators do not necessarily give a good indication of the state of the economy or where the economy is going - they need to be used together. (1 mark)



(d) Which *one* of the following could have led to the employment trend from 2011–2013? Tick the appropriate box.

- An increase in the official cash rate
  - An increase in the exchange rate of Country A
  - An increase in business confidence
  - An increase in the size of the budget surplus
- (1 mark)

(e) Distinguish between Short-run aggregate supply (SAS) and Long-run aggregate supply (LAS).

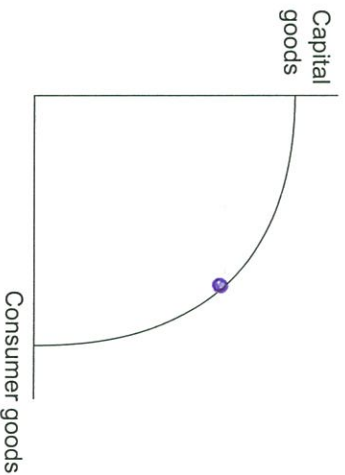
*Short run aggregate supply focuses on raw materials & increase in labour costs, while long run aggregate supply is the effect on the entire economy- increase in the labour force etc.*

(2 marks)

(f) Which *one* of the following terms best describes the stage of the business cycle for the economy of Country A in 2012? Tick the appropriate box.

- Trough
  - Recovery
  - Boom
  - Downturn
- (1 mark)

(g) Mark the likely position for the economy of Country A in 2014 on the production possibility diagram below.



(1 mark)

(h) 'Monetary policy would be more effective in managing the economy of Country A in 2014 than in 2011.' Evaluate this statement.

monetary policy would be more effective in managing Country A in 2014 because in 2014, Country A has high inflation with increasing employment so growth is hence more imbalanced. In order to manage this economy, contractionary monetary policy would be put into place which would decrease inflation to increase external balance. It will have negative effects on unemployment so economic growth, but at this stage, economic growth needs to be managed. However, if <sup>expansionary</sup> monetary policy was used to manage the economy in 2011, it would be less beneficial for the economy, since the attainment of economic growth & employment objectives will have a negative effect on external balance & inflation. (4 marks)

hence only solving two problems in the current economy will have a long effect e.g.

3. Refer to the following information.

### Globalisation and the Impact on Trade

Country B is an economy in transition from a planned economy to a more market-based economy. While Country B currently protects local industries with tariffs and quotas, the government is facing increased pressure to enter a number of free-trade agreements with other members of the World Trade Organization. The government has recently eased restrictions on foreign investment and a number of transnationals have already moved into this market.

Despite higher economic growth, unemployment levels in Country B have been increasing in the past two years as levels of efficiency improve. The government is also concerned that inflation, which is currently just above target levels, will increase further.

(a) State *one* observable change that could occur when an economy is in transition.

increased unemployment (1 mark)

(b) Explain how the following measures may protect local industries:

(i) tariffs.

increase the amount of goods domestic companies are willing to supply... imports are more expensive. (1 mark)

(ii) quotas.

limits the amount of imported goods allowed in the country (1 mark)

(c) (i) State *one* role of the World Trade Organization.

negotiate trade agreements between countries. (1 mark)

(ii) Name *one* type of free-trade agreement into which Country B could enter.

Direct free trade agreement (1 mark)

(d) With reference to Country B above, outline:

(i) *one* advantage of foreign investment.

increases employment with foreign companies moving into market (1 mark)

(ii) *one* disadvantage of foreign investment.

decreases competition hence losing inefficient industries. (1 mark)

(e) Summarise the key benefits and costs for Country B of entering into a free-trade agreement.

Free trade agreements increase the competition in the country's economy to hence force more industries to be efficient with their use of resources. It has positive benefits on consumers in the economy because imports are cheaper to more affordable, hence increasing standard of living of consumers. Also companies using imported goods in production have reduced costs of production. However, free trade agreements will cause inefficient companies which are unable to compete to go out of business to hence unemployment will increase. Also including's using domestic products will find it hard to compete against those using imported products.

(4 marks)



4. Refer to the following table.

Components of GDP for Country C

	Year 1	Year 2
Consumption (\$ billion)	120	100
Investment (\$ billion)	70	70
Government (\$ billion)	75	70
Exports (\$ billion)	25	25
Imports (\$ billion)	50	45

(a) Which one of the following shows the gross domestic product (GDP) for Country C in Year 2? Tick the appropriate box.

- 240
- 265
- 310
- 220

(1 mark)

(b) Distinguish between the economic terms 'consumption' and 'investment'.

Investment is money going from the financial sector into firms  
consumption is talking about household spending into firms in return for goods & services

(1 mark)

(c) Identify one factor, other than income, that might influence the level of consumption spending.

the exchange rate

(1 mark)

(d) 'The most likely stage of the business cycle for the economy in Country C from Year 1 to Year 2 is a downturn.'

(i) Evaluate this statement, with reference to the data for Country C.

Between years 1 to 2, consumption spending decreases & so does government spending, both of which have a negative effect on aggregate demand. However, imports also decrease, which although it has a positive effect on aggregate demand, the overall effect is negative, meaning that the country has moved into a downturn, since AD has decreased. (2 marks)

(ii) Describe the likely change to the level of inventories from Year 1 to Year 2 in the economy of Country C.

decreased government spending has affected consumer spending - perhaps through the budget. (1 mark)

(e) 'Investment spending in Country C decreased significantly in the 12 months following Year 2.'

Using the circular-flow model and with reference to the concept of the expenditure multiplier, explain the potential impact of this decrease.

investment spending comes from the financial sector & is invested into the firms, which in turn supply income to households in return for goods & services. If investment spending decreases, there is less injections into firms & hence this will have a negative multiplier effect on the economy, with a decrease in wages & hence the amount that households are willing to spend into firms, or into taxes, imports & savings. ~~Administrative expenses~~ However, this will not continue to occur, unless investment continues to decrease,

(4 marks)

**PART B** (Questions 5 to 7)  
(20 marks)

Answer **one** essay question from Questions 5 to 7.

*Whenever appropriate, you should supplement your answers with suitable diagrams.*

*Write your answer in the separate script book provided. Write the number of the question you choose in the appropriate box on the front cover of the script book.*

5. 'External influences are the most significant problem that a government experiences when managing economic policy.'  
Evaluate this statement with reference to examples. (20 marks)
6. 'Most countries focus on economic growth, which suggests that it is the most important macroeconomic objective for a government to achieve.'  
Evaluate this statement with reference to examples. (20 marks)
7. 'Successful economic management requires a government to implement both demand and supply-side policies.'  
Evaluate this statement with reference to examples. (20 marks)







# SCRIPT BOOK

SACE REGISTRATION NUMBER										
SEQ	FIGURES			CHECK LETTER	BIN					
014	1	9	5	5	7	9	5	0	6	1
SUBJECT										

Numbers of all questions answered in this script book, in the order answered	
(e.g. 1, 28, 16)	<b>7</b>
Number of script books used	Section or part answered in this script book (see instruction 2)

## Instructions to Students

1. Copy the information from your SACE registration number label clearly into the box at the top of this page.  
*or*  
If the instructions on your question booklet direct you to do so, attach your SACE registration number label to the box at the top of this page.
2. If you are required to write your answer to each section in a separate script book, indicate the section in the box above.
3. Begin each answer on a new page, writing the number of the question in the margin. Write on both sides of the paper.
4. Extra script books and scribbling paper are available on request.
5. During the examination you must write in the boxes above:
  - the numbers of all the questions you have answered in this script book, in the order answered;
  - the number of script books you have used.
6. Put extra books inside the back cover of the first script book.
7. Hand your script book(s) to the invigilator before you leave the examination room, even if you have been unable to answer any questions. Do not leave your book(s) on the desk.

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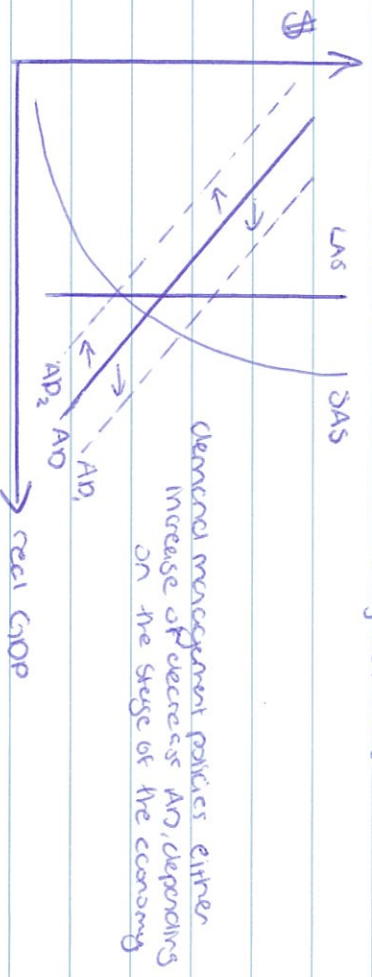
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When ~~being~~<sup>implementing</sup> economic management policies it is important to implement them as a mixture, rather than ~~energy~~ in single sections, in order to best attain all macroeconomic objectives of the economy. There are two different types of policies which have different effects on supply & demand in the economy. Demand management policies, known as fiscal & monetary policies, affect the level of aggregate demand in an economy, whilst microeconomic reform policies affect supply in the economy. It is the aim of these policies to aid the economy in achieving a stable & prosperous condition which is consistent with both moral & social values. Because these policies affect different things in the economy, it is crucial that they be implemented together in order to reach a sustainable economic position. ~~microeconomic reform policies~~

Demand management policies consist of fiscal & monetary policy. ~~These~~ They have the effect of either increasing or decreasing aggregate demand, & in the process of doing so, they attain two of the macroeconomic objectives.



Fiscal policy or budgetary policy is implemented over a year through the federal budget. Because of this, ~~the~~ fiscal policy has a high implementation lag, but a small effect lag, since budgetary changes, like tax cuts, ~~cause~~ cause an immediate effect. There are two forms of budgetary policy, a deficit budget, where aggregate demand is increased & a surplus budget, which has a negative effect on aggregate demand. Deficit budgets only attain two macroeconomic objectives, the objectives of economic growth & full employment, whilst



The economy becomes more externally imbalanced & price stability decreases. A deficit budget was seen in the Australian 2012-13 fiscal budget. Where economic growth was increased with the effect of a large CAD. The budget being exceeded on this year (2014-15) budget is a surplus budget, where economic growth decreases along with employment, but the Australian economy will become more externally balanced.

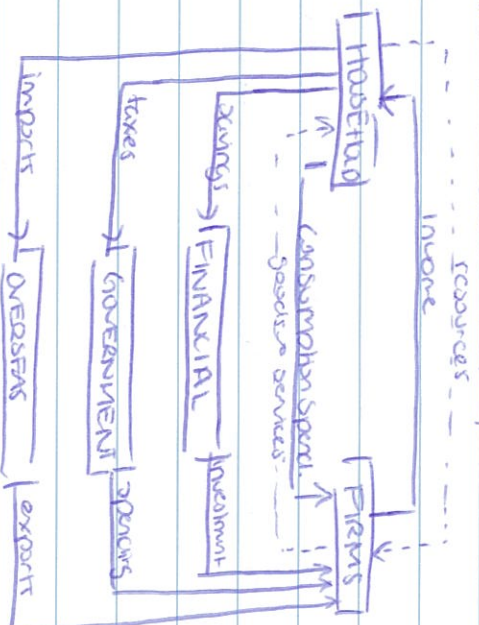
Monetary policy is controlled by the RBA & put into effect using the cash rate. Monetary policy also affects aggregate demand, which is why it is known as a demand management policy. There are two forms of monetary policy. Expansionary monetary policy & contractionary monetary policy. Expansionary monetary policy occurs when the RBA decides to decrease the cash rate. This in turn has the effect of decreasing interest rates. Decrease in interest rates cause economic growth & more employment but have a negative effect on external balance & price stability. The opposite can be said of increasing interest rates. Monetary policy has a small effect long but along implementation lag. It can be put into effect immediately but it takes about 6 months to show in the actions of the economy. The current interest rates of 2.5% seen in the Australian economy are expansionary & promoting growth.

It can be seen that demand management policies are macro-economic in nature & have ~~the~~<sup>an</sup> effect on the entire economy. However, although they can be put into place relatively quickly or the effect can be seen quickly they do not have a complete positive effect on the economy, since they only attain two of the four macroeconomic objectives at a time. This is why it is necessary to implement ~~part~~ demand management policies with supply management policies, so that the effect in the long run is positive & the economy is



managed successfully.

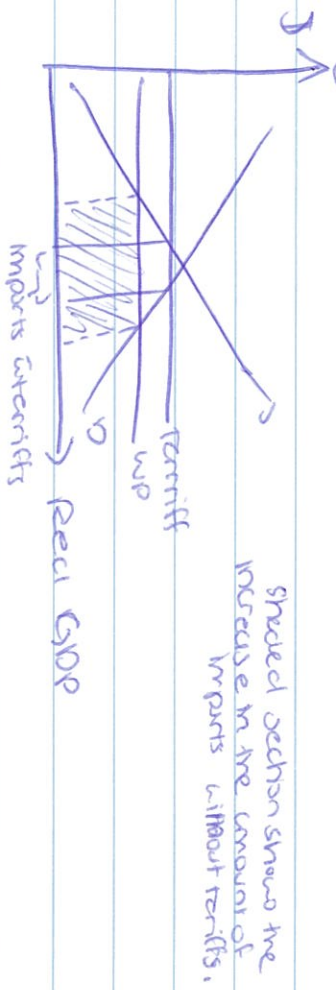
Supply management policies or microeconomic reform, affect businesses & industries in the economy, rather than the entire economy primarily. Because of the effect of supply management policies on the economy, businesses, they in turn effect the movement & actions of consumers & hence the economy. As it can be seen in the circular flow model, an effect on any of the sectors - in this case Firms, will effect the economy as a whole.



There are 6 different types of supply management policies. Protection laws, competition, labour market reform, deregulation of industries & public sector & taxation reform. Each of these policies focuses on increasing growth in the economy & especially the way firms interact with each other & overseas in order to increase their efficiency.

Protection laws are a large part of supply management policies. Protection laws protect inefficient industries in an economy through tariffs, subsidies, quotas & taxes. They focus on allowing domestic companies to still compete with other companies that are overseas & hence allow companies to still operate. However although protection laws keep people in jobs, it encourages inefficient industries & hence the misallocation of necessary resources. Hence supply management policies focus on the removal of protection laws for the better of the economy.

Free trade agreements, like the current free trade agreement being negotiated with Japan, involve the removal or decreasing of some protection laws like tariffs, hence increasing the demand for imported goods.



This has positive benefits for consumers & industries using the imported goods as capital, but protects causes domestic industries to be lost which can't compete.

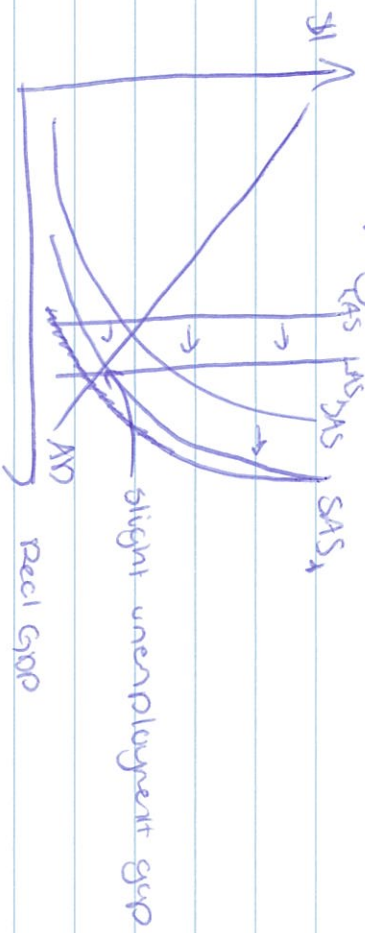
Competition is another key section of supply management policies since it encourages efficiency amongst those industries which are a part of the economy. Increased competition forces industries to allocate resources more efficiently & hence increases the productivity of the economy.

The four other supply management policies, labour market reform, deregulation of industries, taxation reform & reform of the public sector all encourage efficiency in industries as well as forcing them to take more control of things like wages in order to make the economy run better & more competitively. It is important for the economy to be able to compete with overseas markets in order to avoid run & stagnate sustainable position.

Supply management policies have the effect of increasing supply in the economy which in turn positively affects the economy by often cutting all 4 macroeconomic objectives. With supply management policies there is

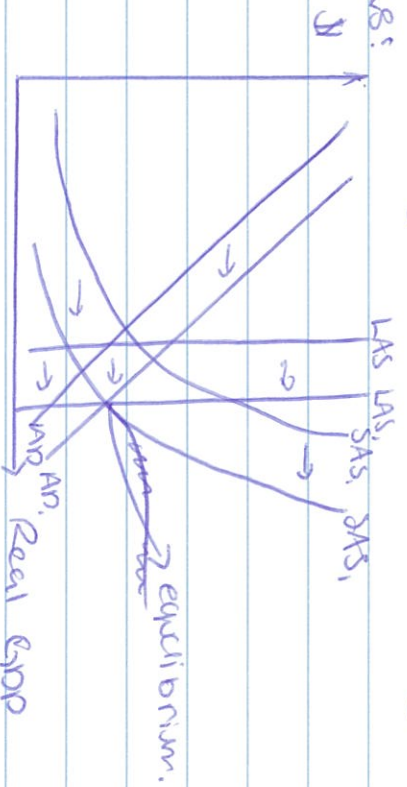


often structural employment in the short term.



however, in the long run there are many positive benefits for the economy through the increase in competition & efficiency.

Hence, when successfully implementing economic management policies it is important to take in account both supply & demand policies in order to best benefit the economy & attain the achievements of all macroeconomic objectives in the long term whilst reducing the short term negatives:



For example, the Australian economy will implement both supply & demand management policies - with something like the budget in order to successfully reach economic equilibrium & positively benefit the economy with successful economic policies.

