St Ignatius' College
Riverview

2019

PRELIMINARY
FINAL EXAMINATION

Economics

General Instructions

- Reading time – 5 minutes
- Working time – 2 hours (120 minutes)
- Write using black pen
- NESA approved calculators may be used

Total marks: 70

Section I – 20 marks

- Attempt Questions 1–20
- Allow about 25 minutes for this section

Section II – 30 marks

- Attempt Questions 21–23
- Allow about 45 minutes for this section

Section III – 20 marks

- Attempt Question 24
- Allow about 50 minutes for this section

Section I

20 marks
Attempt Questions 1–20
Allow about 25 minutes for this section

Use the multiple-choice answer sheet for Questions 1–20.

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1 Which of the following statements is true in relation to average wage outcomes for women in Australia?

(A) They have decreased

(B) They are now equal with average wages for men

(C) They have increased but are still below wages for men

(D) They have increased and are now higher than average wages for men

2 Which of the following would require an individual to purchase Australian currency?

(A) An Australian tourist making purchases in China

(B) An Australian retiree taking advantage of higher interest rates in NZ

(C) A US investor purchasing shares in a company on the Australian stock exchange

(D) A US investor selling their shares in a company on the Australian stock exchange

3 Which of the following has led to the decline in union membership in Australia since 1960?

(A) An increase in public sector employment

(B) An increase in casual, part time and temporary employment

(C) An increase in women in full-time employment in Australia

(D) The move towards a more centralised system of setting wages and conditions

4 Which of the following organisations prepare the annual Federal budget?

(A) Australian Treasury

(B) Reserve Bank of Australia

(C) Council of Financial Regulators

(D) Australian Prudential Regulation Authority

5 Section 51 of the Constitution gives the Commonwealth powers over which of the following matters?

(A) Foreign policy, education, health

(B) Health, immigration, weights and measures

(C) Currency, weights and measures, immigration

(D) Trade and commerce, foreign policy, education

6 Which of the following are characteristics of a monopoly market structure?

(A) Many competitors, different products, price taker

(B) One large seller, low barriers of entry, price taker

(C) Few large competitors, different products, price maker

(D) One large seller, very high barriers of entry, price maker

7 Frank sells his Sydney home, expecting the market to fall. For Frank this is an example of the

(A) wealth effect.

(B) transmission mechanism.

(C) speculative motive for funds.

(D) transactional motive for funds.

8 Which of the following combinations demonstrate individuals as both lenders and borrowers in financial markets?

	As borrowers	*As lenders*
(A)	Purchase of new shares in BHP	Money invested in the share market
(B)	Bank's money used to buy a car	Money deposited with a bank
(C)	Bank's money used to buy shares	Superannuation funds used to buy property
(D)	Bank's money used to buy a house	Superannuation funds investing in the share market

9 The group that is most likely to lobby for the least government intervention in the market is

(A) the Business Council of Australia.

(B) the Australian Council of Trade Unions.

(C) the Australian Conservation Foundation.

(D) the Australian Council of Social Services.

10 Interest rates differ for personal loans and housing loans.

The difference in rates is a result of

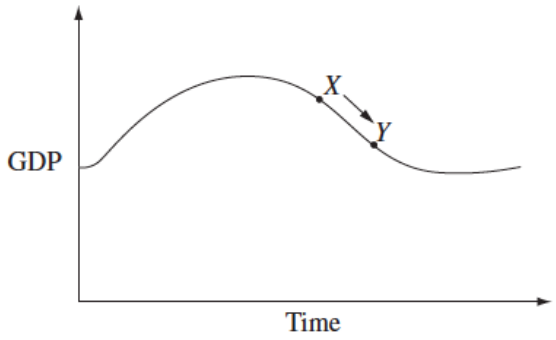
(A) fixed versus variable loans.

(B) the difference in security provided.

(C) the short-term risk associated with both loans.

(D) the lack of competition in Australia's financial markets.

11 The graph shows that an economy has moved from point *X* to point *Y*.



Which policy mix is the most appropriate for this economy?

(A) Expansionary fiscal and loosening monetary

(B) Expansionary fiscal and tightening monetary

(C) Contractionary fiscal and loosening monetary

(D) Contractionary fiscal and tightening monetary

12 Which of the following are advantages for an individual of casualisation of the workforce?

(A) Higher hourly rate and less income security

(B) Lower hourly rate and flexibility in hours of work

(C) Higher hourly rate and flexibility in hours of work

(D) Lower hourly rate and receive annual and sick leave

13 A farmer enters into a futures contract to sell his wheat at $290 a ton.

All other things being equal, in which of the following scenarios would the farmer lose revenue?

(A) If the market price of wheat fell to $280 per ton.

(B) If a drought reduced the supply of wheat in the market.

(C) If the supply of wheat in the market increased significantly.

(D) If the demand for wheat in the market decreased significantly.

14 Which of the following statements about financial aggregates in Australia is correct?

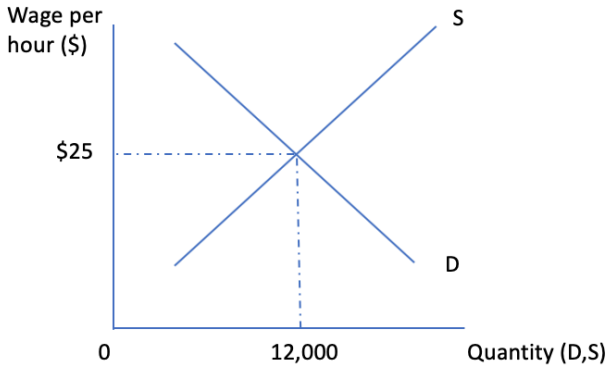
(A) The money base does not include currency.

(B) M3 is greater than the value of broad money.

(C) M3 includes funds deposited by customers in non-bank financial institutions.

(D) The deposits that banks have with the RBA in their exchange settlement accounts are included in the money base.

15 The diagram below shows the demand and supply of labour in a hypothetical industry.



A union manages to secure a $5 per hour increase in the wage rate for workers in this industry.

All other things being equal, which of the following is now true?

(A) The industry will employ more than 12,000 workers.

(B) Firms experience a shortage of workers in this industry.

(C) The union's action has created unemployment in this industry.

(D) The number of workers willing and able to supply their labour is less than 12,000.

16 A government decides to corporatise one of their Government Business Enterprises (GBE).

All other things being equal, this GBE would now

(A) be sold to the public via an initial public offering.

(B) adopt private sector management and accountability principles.

(C) lose its monopoly status as other rivals would be allowed to enter the market.

(D) enjoy the ability to borrow at favourable rates compared to private corporations

17 Which of the following best describes the impact of mobile phone payments systems on the Australian economy?

(A) More cash is demanded and less transactions occur.

(B) Less cash is demanded and less transactions occur.

(C) More cash is demanded and more transactions occur.

(D) Less cash is demanded and more transactions occur.

18 An investor sells a bond in the bond market.

This is an example of

(A) primary trading of a new financial security.

(B) secondary trading of a new financial security.

(C) primary trading of an existing financial security.

(D) secondary trading of an existing financial security.

19 Australian industrial awards specify wages paid according to age of the worker.

The objective of this aspect of awards is designed to

(A) assist older workers obtain employment.

(B) protect older workers from discrimination.

(C) assist younger workers obtain employment.

(D) protect younger workers from discrimination.

20 Which of the following are arguments in favour of increased income inequality?

(A) Increased productivity and increased GDP

(B) Increased productivity and decreased GDP

(C) Reduction of poverty and increase in unemployment

(D) Reduction of poverty and decrease in unemployment

Section III
20 marks
Attempt Question 24
Allow about 50 minutes for this section
Answer the question in a writing booklet. Extra writing booklets are available.

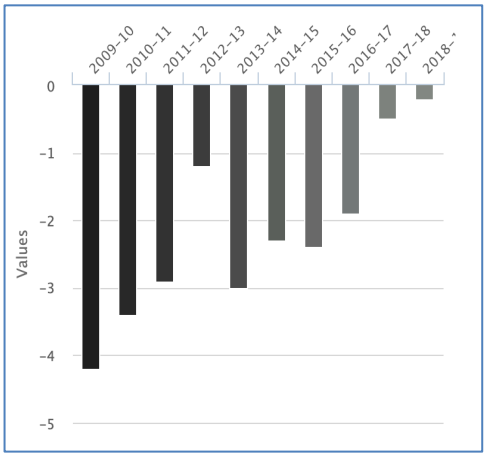
Your answer will be assessed on how well you:

- demonstrate knowledge and understanding relevant to the question
- use the information provided
- apply relevant economic terms, concepts, relationships and theory
- present a sustained, logical and cohesive response

Question 24 (20 marks)

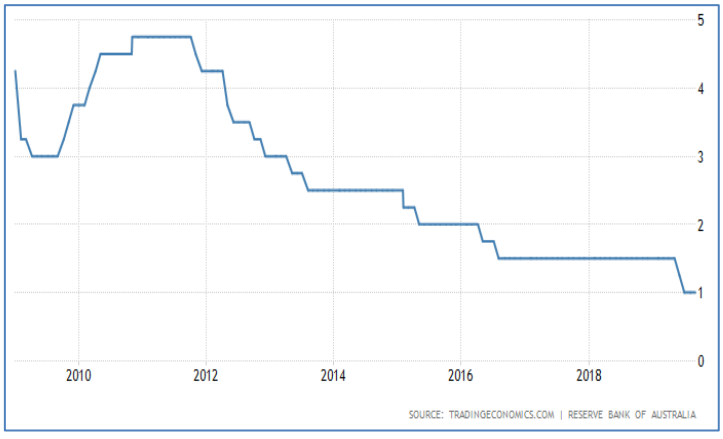
Explain how monetary and fiscal policies have impacted Australia's economic growth since 2008. In your response, refer to the economic information provided.

Historical Australian Federal Budget Outcomes (% of GDP)



Source: Budget.gov.au

Australian Cash Rate (2009 – Present)



End of Section III

2019 PRELIMINARY EXAMINATION

Economics

Section II

30 marks
Attempt Questions 21–23
Allow about 45 minutes for this section

Student Number

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

Question 21 (10 marks)

(a) Distinguish between income and wealth. **2**

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(b) Outline the roles of ASIC and APRA in the regulation of Australia's financial markets. **4**

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Question 21 continues on the next page

(c) Explain the impact of the share market on household consumption and business investment. **4**

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End of Question 21

Student Number

Section II (continued)

Question 22 (10 marks)

(a) Distinguish between a direct tax and an indirect tax. **2**

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(b) Distinguish between structural and frictional unemployment. **2**

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Question 22 continues on the next page.

(c) Compare the impact on income inequality of an increase in the rate of GST (Goods and Services Tax) to the impact on income inequality of an increase in the top marginal rate of tax. **6**

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End of Question 22

Student Number

Section II (continued)

Question 23 (10 marks)

(a) Define public goods. **2**

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(b) Explain how a demerit good might have negative consequences for the environment. **4**

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Question 23 continues on the next page

(c) Explain the potential impact of the removal of government intervention in relation to competition in Australia. **4**

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End of Question 23

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Preliminary Economics
ASSESSMENT TASK 3

Economics- Task 3 – Prelim Criteria

Section 1

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

Section II – Short Answer

Section II

Question 21 (10 marks)

21(a) Distinguish between income and wealth.

Criteria	*Mark*
Notes clearly the distinction between income and wealth	2
Defines both terms	1

Answers could include:
Income refers to the amount of money, or other benefits which flow to individuals or households, usually for their contribution to the production process or as a direct payment from the government over a period of time. Includes wages form labour, rent from land, interest from capital and profit from enterprise.
Whereas wealth refers to the value of the stock of assets held by individuals at a point in time. Includes property, shares, superannuation

Sample student response

Question 21 (10 marks)

(a) Distinguish between income and wealth. **2**

Income is the amount of money that flows into households from wages, salaries, interest payments and dividends, whereas wealth is the value of the assets held by an individual such as property, savings and shares.

2

21(b) Outline the roles of ASIC and APRA in the regulation of Australia's financial markets.

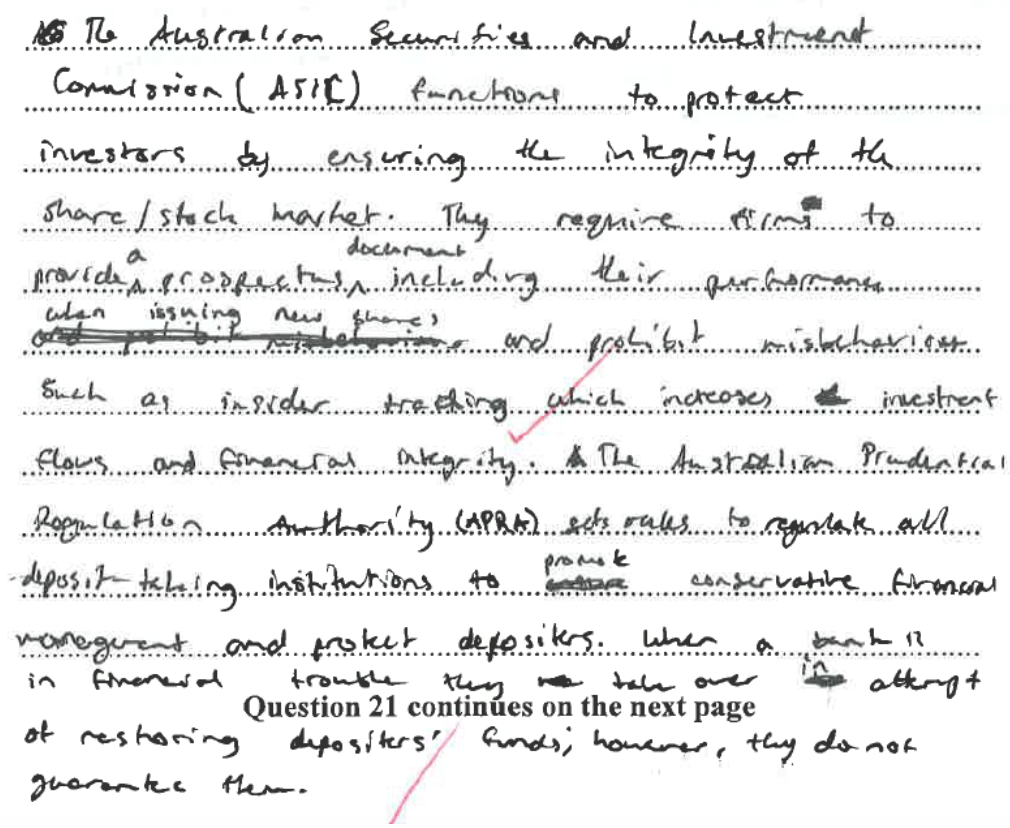
Criteria	*Mark*
Sketches in general terms the roles of ASIC and APRA in the regulation of Australia's financial markets.	4
Sketches in general terms the roles of ASIC OR APRA in the regulation of Australia's financial markets and identifies one role of the other	3
Identifies one role of ASIC and APRA in the regulation of Australia's financial markets OR Sketches in general terms the roles of ASIC OR APRA	2
Identifies one role of ASIC OR APRA	1

Answers could include:

APRA regulates insurance companies and superannuation funds to achieve financial stability. It also does not guarantee banks but sets rules for prudential management (conservative financial practices by those that it regulates. It provides prudential regulation for all authorised approved deposit-taking institutions (ADIs) including banks, superannuation funds and insurance companies, credit unions and building societies. They ensure ADI's deposit holders can take their money back when they want it and insurance companies can honour policies. APRA can intervene in any of its related institutions if it feels they have become financially unviable.

ASIC regulates financial markets (i.e administers corporations law which includes prohibition on insider trading. It also administers consumer protection provisions of Corporations law which includes regime to licence brokers for financial markets to protect investors. It also requires lodgement of prospectuses where primary issues occur in relation to shares and bonds to protect public. In doing this it ensures investors have confidence in the markets and therefore participate. It will act where the integrity of the financial system has been undermined by the illegal acts of individuals or the creation of unethical investment products.

Sample student response


The Australian Securities and Investment Commission (ASIC) functions to protect investors by ensuring the integrity of the share / stock market. They require firms to provide a prospectus document including their performance when issuing new shares and prohibit misbehaviour such as insider trading which increases investment flows and financial integrity. The Australian Prudential Regulation Authority (APRA) sets rules to regulate all deposit-taking institutions to promote conservative financial management and protect depositors. When a bank is in financial trouble they take over in attempt of restoring depositors' funds; however, they do not guarantee them.

Question 21 continues on the next page

21(c) Explain the impact of the share market on household consumption and business investment.

Criteria	*Mark*
Clearly relates cause and effect of the impact of the share market on household consumption and business investment.	4
Relates cause and effect of the impact of the share market on household consumption and business investment.	3
Sketches in general terms the impact of the share market on household consumption and business investment **OR** clearly relates cause and effect of the impact of the share market on household consumption OR business investment.	2
Identifies some impact of the share market on household consumption and business investment.	1

Answers could include

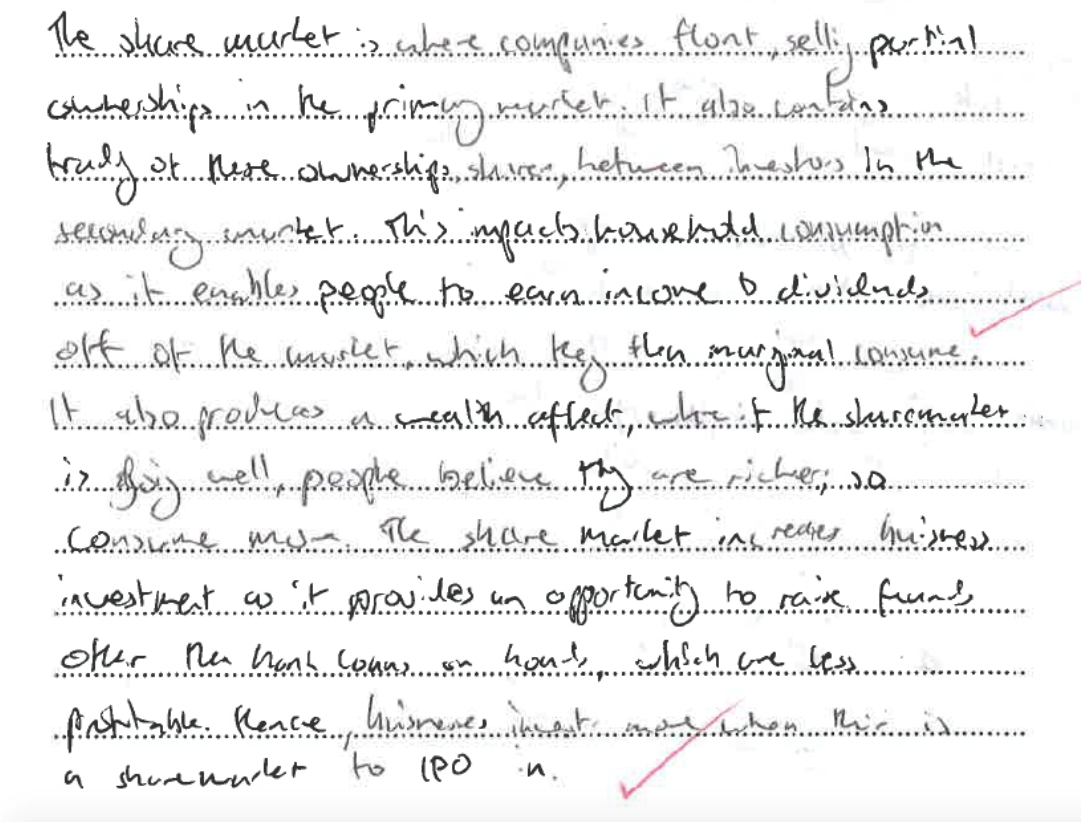
The share market is a market in which new shares are issued by companies seeking funds (primary issue of securities) and where shareholders buy and sell (trade) existing shares in the hope of making trading profits.

For households the impact of the share market is to allow those with excess funds to lend to those who require funds allowing households to make investments in return for profit and increased wealth. Households receive a dividend which increases their income allowing for increased consumption in the economy. The value of the share market also contributes to the wealth effect for an individual whereby household investors whose shares are declining in value may fell less wealthy and therefore reduce consumption expenditure and save more, increasing leakages and therefore reducing aggregate demand economic growth in the economy.

For business investment the share market allows those businesses who require funds to invest in capital equipment or to expand operations to obtain the necessary funds to do so by issuing new securities. This in turn allows the business investment to increase aggregate demand and economic growth in the economy.

Sample student response

business investment.



Question 22 (10 marks)

22(a) Distinguish between a direct tax and an indirect tax.

Criteria	*Mark*
Makes the difference between a direct tax and an indirect tax clear.	2
Makes a relevant statement about a direct and/or indirect tax.	1

Answers could include:

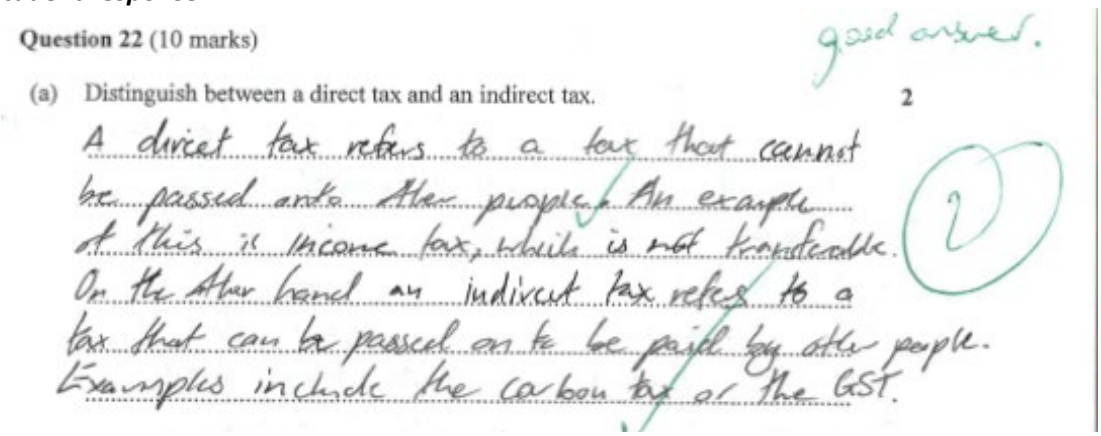
Direct tax – a tax which is levied on (charged to) the person who pays it. The tax cannot be passed on by that person for someone else to pay. Common examples of this in Australia are personal income taxes and company tax (on profits). A direct tax sees the impact (who is charged) and the incidence (who ultimately pays) of the tax being the same the same.

Indirect tax – a tax which is charged to producers of goods and services but are paid by the consumer indirectly. This means that the person who is charged the tax passes on the tax to their customer by increasing the price of the good or service. E.g. GST, petrol taxes, taxes on alcohol etc. With an indirect tax the impact (who is charged) and the incidence (who ultimately pays) are not the same.

Markers comments

- In general the question was done pretty poorly. There was a lack of ability to articulate the difference between the two concepts and often there was difficulty in just accurately defining what each concept actually was. *Reflective question for the cohort – if these two words specifically appear in the syllabus, how did you study for this section if you are unable to even accurately define these concepts, let alone apply them? You must start by being able to define concepts that appear in the syllabus as a base level of understanding. Near enough is not good enough. Precise, technically correct definitions are essential in economics.
- Students need to recognize the NESA term distinguish in their answer by using terms that demonstrate difference. Terms could include whereas, as opposed to, in difference to, unlike etc. Students cannot obtain full marks by providing two separate definitions without any demonstrations of how these differences manifest.

Sample student response



Question 22 (10 marks)

good answer.

(a) Distinguish between a direct tax and an indirect tax. 2

A direct tax refers to a tax that cannot be passed onto other people. An example of this is income tax, which is not transferable. On the other hand an indirect tax refers to a tax that can be passed on to be paid by other people. Examples include the carbon tax or the GST.

2

22(b) Distinguish between structural and frictional unemployment.

Criteria	*Mark*
Makes the difference between structural and frictional unemployment clear	2
Makes a relevant statement about structural and/or frictional unemployment	1

Answers could include:

Structural unemployment

- Structural unemployment occurs when there is a mismatch between the jobs that are available and the people looking for work. This mismatch could be because jobseekers don't have the skills required to do the available jobs, or because the available jobs are a long way from the jobseekers.
- Workers may become unemployed if they work in industries that are declining in size or have skills that could be automated as a result of large-scale technological advances. It may be difficult for them to find work in another industry and they may need to develop new skills or move to a region that has more opportunities.

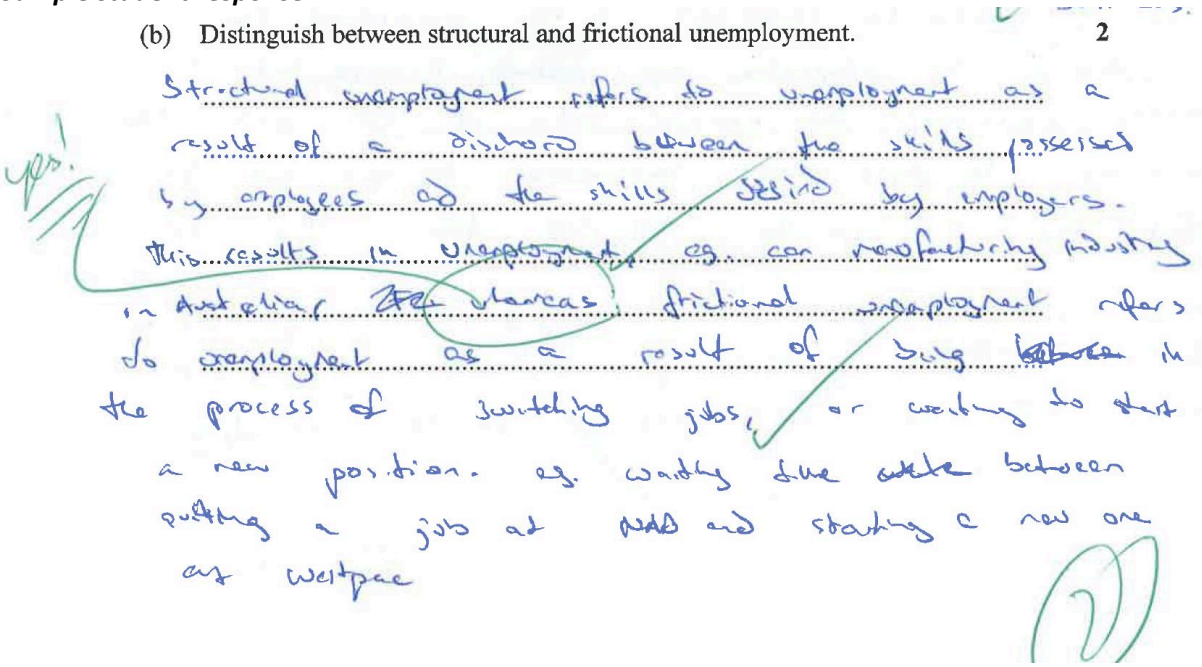
Frictional unemployment

- Frictional unemployment occurs when people move between jobs in the labour market, as well as when people transition into and out of the labour force.

- Movement of workers is neccessary for a flexible labour market and helps achieve an efficient allocation of labour across the economy. However, people may not find jobs immediately and need to invest time and effort in searching for the right job. Businesses also spend time searching for suitable candidates to fill job vacancies. As a result, people looking for jobs are not matched immediately with vacancies and may experience a period of temporary unemployment.

- This type of unemployment is generally shorter term (less than one month). Frictional unemployment is likely to occur at all points of the business cycle and, like structual unemployment, may not influence wages or inflation.

Sample student response



(b) Distinguish between structural and frictional unemployment. **2**

Structural unemployment refers to unemployment as a result of a disjoint between the skills possessed by employees and the skills desired by employers. This results in unemployment eg. car manufacturing industry in Australia whereas frictional unemployment refers to unemployment as a result of being in the process of switching jobs, or waiting to start a new position. eg. waiting due date between quitting a job at MAB and starting a new one at Westpac

yes!

22(c) Compare the impact on income inequality of an increase in the rate of GST (Goods and Services Tax) to the impact on income inequality of an increase in the top marginal rate of tax.

Criteria	*Mark*
Demonstrates a comprehensive understanding of the differences between an increase in the GST and an increase in the top marginal rate of tax on income inequality.	6
Demonstrates an understanding of the differences between an increase in the GST and an increase in the top marginal rate of tax on income inequality.	4-5
Sketches in general terms the impact of an increase in the GST and an increase in the top marginal rate of tax on income inequality.	2-3
Makes a relevant statement about the nature of GST or income tax.	1

Answers could include:

- GST – regressive in nature, any increase would further increase the inequality of income.
- Top marginal rate of tax – progressive in nature, any increase would decrease the inequality of income.
- Students must use formal terminology and create cause and effect arguments between the qualities of the tax and then the impact on income inequality.

Marker's comments

- Broadly well done.
- Be careful – we don't make value judgments in economics. We say that income inequality increases or decreases, but we don't say it improves or worsens, positive or negative impact, because the judgments about whether the movements are beneficial or not are deeply aligned to ones political views. We keep are answers purely factual without entering the political domain.

Sample student response

(c) Compare the impact on income inequality of an increase in the rate of GST (Goods and Services Tax) to the impact on income inequality of an increase in the top marginal rate of tax. **6**

The Goods and Services Tax (GST) is a regressive tax (meaning less), as incomes decrease, the average rate of tax increases. If the GST tax was to increase the impact on income inequality would worsen and the GINI index raise. This is because the flat rate of GST takes tax takes more money away from lower socio-economic individuals than it does higher because it is a universal tax. The flow impact of this is that you then harm or worsen income inequality through increasing the tax as it greatly disproportionally affects the poorer in society. Comperatively, the top marginal rate of tax refers to the marginal rate of progressive income tax charged to the top income earners. The impact on income inequality if the top marginal tax rate was raised would be an decrease in income inequality and on economies GINI index. This is because the top income earners are being taxed a greater amount than before, redistributing their wealth through social welfare payments and decreasing income inequality, opposite to an increase in a GST tax increase.

End of Question 22

6

Question 23

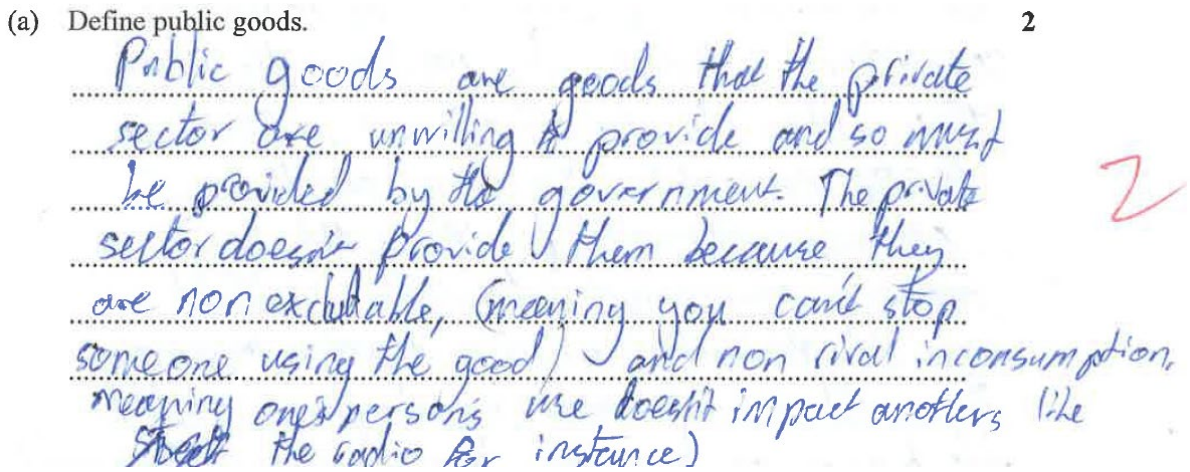
a) Define public goods. (2 marks)

Criteria	*Mark*
State meaning and identify essential qualities of public goods	2
Identifies an attribute of public goods	1

Answers could include:

A public good is a good which has the attributes of being non rival in consumption, and non excludable. Non rival in consumption means that one person's consumption of the good does not limit another person's enjoyment of the full benefit of the good. Non excludable refers to where it is not possible to exclude someone from accessing the benefit of the good.

Sample student response


(a) Define public goods. 2

Public goods are goods that the private sector are unwilling to provide and so must be provided by the government. The private sector doesn't provide them because they are non excludable, (meaning you can't stop someone using the good) and non rival in consumption, meaning one persons use doesn't impact anothers (like the radio for instance)

2

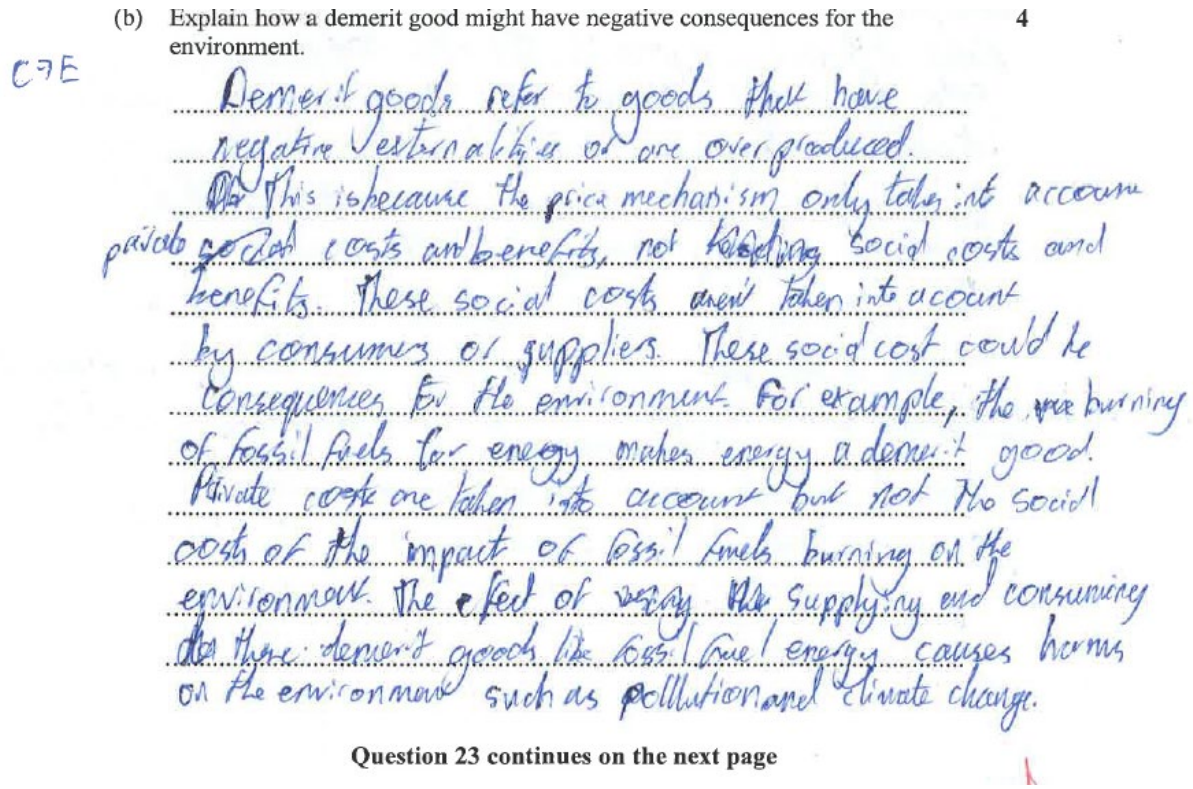
b) Explain how a demerit good might have negative consequences for the environment. (4 marks)

Criteria	*Mark*
Provides cause and effect of how a demerit good might have negative consequences for the environment	3-4
Provides characteristics and features of how a demerit good might have negative consequences for the environment	2
Sketches in general terms how a demerit good might have negative consequences for the environment	1

Answers could include:

A demerit good is a good whose production or consumption results in negative externalities. Negative externalities are unintended adverse consequences which are not take account in the price mechanism, in the case of the environment, would include social costs. One such demerit good is electricity produced by fossil fuels. As a result of the production of electricity using fossil fuels, adverse impacts occur on the environment which are not taken into account in the price mechanism, including the adverse social cost of pollution and climate change.

Sample student response



(b) Explain how a demerit good might have negative consequences for the environment. 4

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Demerit goods refer to goods that have negative externalities or are over produced. This is because the price mechanism only takes into account private costs and benefits, not including social costs and benefits. These social costs aren't taken into account by consumers or suppliers. These social cost could be consequences to the environment for example, the burning of fossil fuels for energy makes energy a demerit good. Private costs are taken into account but not the social cost of the impact of fossil fuels burning on the environment. The effect of using the supplying and consuming the these demerit goods like fossil fuel energy causes harms on the environment such as pollution and climate change.

Question 23 continues on the next page

c) Explain the potential impact of the removal of government intervention in relation to competition in Australia.(4 marks)

Criteria	*Mark*
Provides cause and effect of the potential impact of the removal of government intervention in relation to competition in Australia	3-4
Provides characteristics and features of the potential impact of the removal of government intervention in relation to competition in Australia	2
Sketches in general terms the potential impact of the removal of government intervention in relation to competition in Australia	1

Answers could include:

The government currently intervenes in relation to competition in order to increase the level of competition which would otherwise occur in the market. This includes the provisions of the Competition and Consumer Act 2010 which prohibited a number of anti-competitive practices including price fixing, collusion, and market abuse. If this intervention was removed, there would be no prohibition on this conduct, with the result that competition in Australia would decrease. Business would engage in price fixing to increase business profits, collusion as to markets and competition, and market abuse where price discrimination may be used by businesses with substantial market power in order to reduce competition.

Sample student response

(c) Explain the potential impact of the removal of government intervention in relation to competition in Australia. 4

Government intervention is able to manage competition in Australia by regulating the financial market. This is done by the government intervening to stop monopolies arising, as well as preventing collusion and price fixing. By removing government intervention it would cause the likelihood of market monopolies to increase. This would occur because big companies would be able to merge or by another large company. This would make it nearly impossible for other companies to enter the market. For example, the government currently intervenes by stopping Coles and Woolworths from merging. The removal of this intervention would allow a merge creating a monopoly in the market. Also removing government intervention would cause an increase in the possibility of collusion. Two petrol stations (coles and woolworths), where they are the only competitors, would be able to collude and agree to raise prices. Government intervention currently prevents this but the removal would make collusion possible.

End of Question 23

Section III – Stimulus Essay

Section III
Question 24 (20 marks)

Explain how monetary and fiscal policies have impacted Australia's economic growth since 2008. In your response, refer to the economic information provided.

Criteria	Marks
• Clearly provides (with detail) the impact of (relating cause and effect) fiscal and monetary policy on economic growth in Australia from 2008 to the present. • Synthesises relevant economic data to support a comprehensive, contemporary and theoretical discussion in a sustained, logical and well-structured answer • Integrates economic terms, concepts, issues, relationships and theory	17–20
• Provides the impact of (relating cause and effect) fiscal and monetary policy on economic growth in Australia from 2008 to the present. • Uses relevant data to develop a logical and well-structured response • Applies appropriate economic terms, relevant concepts, relationships and theory	13–16
• Provides characteristics and features of fiscal and monetary policy on economic growth in Australia from 2008 to the present. • Uses relevant data to develop a coherent response • Applies some appropriate economic terms, concepts and theory	9–12
• Sketches concepts related to the economy and fiscal and monetary policy and economic growth. • Makes minimal use of data to develop a generalised response • Uses some economic terms and concepts	5–8
• Demonstrates elementary knowledge of fiscal and monetary policy and/or economic growth. • Basic use of some terminology in a limited response	1–4

Answers may include:
Outline the role and operations of Fiscal policy:
Role – Stabilisation of economic activity, reallocation of resources, redistribution of income
Characteristics of fiscal - budget outcomes vs budget stances, discretionary vs non-discretionary, AD-AS graph
Economic Growth -> Multiplier effect through changing "G". The impact of various budget outcomes throughout recent history.
Outline the role and operation of Monetary policy:
Role – price stability, sustainable economic growth, operation of DMO's and/or cash rate corridor.
Student is able to write the essay from the perspective of recent Australian context. Recommended structure would include GFC and post GFC response.
Stronger answers would directly address the question and have a heavy focus on name of fiscal programs and year of initiation, dollar value, and impact on economic growth.
Monetary policy settings through the movement in the cash rate target and impacts on growth since 2008.