ECONOMICS
(ECN315116)

SECTION A
Time allocated: 45 minutes

Candidate Instructions

1. You MUST make sure that your responses to the questions in this examination paper will show your achievement in the criteria being assessed.
2. You MUST answer SIX questions from this section. TWO questions from each of the following:
   - Unit 1 – An Introduction to Economics
   - Unit 2 – Economic Management
   - Unit 3 – Australia and the Global Economy
3. You must write concise and clear answers for each of the questions you have chosen.
4. You are encouraged to include diagrams where relevant.
5. Answers must be written in the spaces provided on the examination paper.
6. Each question is worth 6 marks. 6 x 6 = 36 marks in total for Section A.
7. Make sure you answer all parts within a question.
8. This examination is 3 hours in length. It is recommended that you spend approximately 45 minutes in total answering the questions in this booklet.
9. All written responses must be in English.

On the basis of your performance in this examination, the examiners will provide results on each of the following criteria taken from the course document:

Criterion 1 Describe and apply economic terms, concepts, theories and ideas.

Criterion 5 Communicate economic ideas and information.
Instructions

You **MUST** answer **SIX** questions from this section.

**TWO** questions from each of the following:

- **Unit 1 – An Introduction to Economics**
- **Unit 2 – Economic Management**
- **Unit 3 – Australia and the Global Economy**

You are encouraged to include diagrams where relevant.
You MUST answer TWO questions from this Unit.

You are encouraged to include diagrams where relevant.

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**Question 1**

Explain the concept of market failure. Explain the difference between negative and positive externalities, using at least TWO examples of each in your answer.

(6 marks)

**Question 2**

State the law of supply. Using at least THREE examples, explain the main determinants affecting the supply of a good.

(6 marks)

**Question 3**

Explain the economic problem. Explain the relationship between the concepts of scarcity and opportunity cost.

(6 marks)
You **MUST** answer **TWO** questions from this Unit.

You are encouraged to include diagrams where relevant.

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**Question 4**
Using **TWO** examples, explain the role of government in a modified market economy.

(6 marks)

**Question 5**
Describe the concept of underemployment. Explain the similarities and differences between the employment trends of casualisation and part-time work.

(6 marks)

**Question 6**
Distinguish between the role of automatic stabilisers and discretionary fiscal policy as government management policies.

(6 marks)
EXAM CONTINUES OVER THE PAGE
UNIT 3 – Australia and the Global Economy

You MUST answer TWO questions from this Unit.

You are encouraged to include diagrams where relevant.

Question 7
Explain the concept of a current account deficit. Outline the structure of Australia’s Balance of Payments. (6 marks)

Question 8
Explain the concept of free trade. Using TWO examples, explain the importance of trade to the Australian economy. (6 marks)

Question 9
Explain the concept of comparative advantage. Describe TWO areas where Australia might have a comparative advantage. (6 marks)
ECONOMICS
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SECTION B
Time allocated: 45 minutes

Candidate Instructions
1. You MUST make sure that your responses to the questions in this examination paper will show your achievement in the criteria being assessed.
2. You MUST answer SIX questions from this section. TWO questions from each of the following:
   - Unit 1 – An Introduction to Economics
   - Unit 2 – Economic Management
   - Unit 3 – Australia and the Global Economy
3. You must write concise and clear answers for each of the questions you have chosen.
4. You are encouraged to include diagrams where relevant.
5. Answers must be written in the spaces provided on the examination paper.
6. Each question is worth 6 marks. 6 x 6 = 36 marks in total for Section B.
7. Make sure you answer all parts within a question.
8. This examination is 3 hours in length. It is recommended that you spend approximately 45 minutes in total answering the questions in this booklet.
9. All written responses must be in English.

On the basis of your performance in this examination, the examiners will provide results on each of the following criteria taken from the course document:

Criterion 2 Apply economic models and mathematical techniques to analyse economic data and information.

Criterion 5 Communicate economic ideas and information.
Instructions

You MUST answer SIX questions from this section.

TWO questions from each of the following:

- Unit 1 – An Introduction to Economics
- Unit 2 – Economic Management
- Unit 3 – Australia and the Global Economy

You are encouraged to include diagrams where relevant.
Question 10

i) Using a fully labelled diagram, explain how an increase in demand for solar energy will cause changes to the equilibrium price and quantity of coal (as an energy source).

ii) Using the coal example above, explain whether this has resulted in a movement along or a shift of the supply curve for coal.

iii) Explain how the price mechanism would clear a market shortage or surplus of coal as a result of the increase in demand for solar energy.

(6 marks)
Question 11
The table below shows changes in demand for Marko’s Mountain Bike Tours at various prices.

<table>
<thead>
<tr>
<th>Price ($)</th>
<th>20</th>
<th>25</th>
<th>30</th>
<th>35</th>
<th>40</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quantity Demanded</td>
<td>200</td>
<td>180</td>
<td>100</td>
<td>50</td>
<td>20</td>
</tr>
</tbody>
</table>

i) Using the total revenue method, describe the price elasticity of demand as the price changes from $20 to $25.

ii) Evaluate the impact on the business when the price changes from $35 to $40.

iii) Using a fully labelled diagram, show an impact of improved mountain bike tracks on the demand or supply for Marko’s Mountain Bike Tours.

(6 marks)
Question 12

Production Possibility Frontier - Headland

Consumption Goods

0 2 4 6 8 10 12 14

Capital Goods

1 2 3 4 5 6 7

i) Calculate the opportunity cost of Headland increasing their level of capital goods from 4 to 5.

ii) What conclusions can be drawn about Headland’s aim of producing at point A.

iii) With reference to the Production Possibility Frontier above, explain the choices and trade-offs that exist for Headland.

(6 marks)
You MUST answer TWO questions from this Unit.

You are encouraged to include diagrams where relevant.

Question 13

Use the data in the table about the Australian economy to answer the questions below:

<table>
<thead>
<tr>
<th>Year</th>
<th>Economic Growth Rate (%)</th>
<th>Interest Rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>2.9</td>
<td>2.5</td>
</tr>
<tr>
<td>2016</td>
<td>2.7</td>
<td>2.0</td>
</tr>
<tr>
<td>2017</td>
<td>2.5</td>
<td>1.5</td>
</tr>
<tr>
<td>2018</td>
<td>2.2</td>
<td>1.5</td>
</tr>
<tr>
<td>2019</td>
<td>1.8</td>
<td>1.25</td>
</tr>
</tbody>
</table>

i) Explain the trend in the interest rate in the Australian economy between 2015 and 2019.

ii) Analyse the impact of the trend in interest rates between 2017 and 2019 on economic growth.

iii) Using a fully labelled macroeconomic equilibrium diagram, model the change in economic growth from 2018 to 2019.

(6 marks)

Question 13 continues.
Question 14

The data below relates to a hypothetical economy.

<table>
<thead>
<tr>
<th>Year Ending</th>
<th>Real Gross Domestic Product (GDP) in $ Billions</th>
<th>Consumer Price Index (CPI)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>1,500</td>
<td>100</td>
</tr>
<tr>
<td>2015</td>
<td>1,575</td>
<td>102</td>
</tr>
<tr>
<td>2016</td>
<td>1,680</td>
<td>104</td>
</tr>
<tr>
<td>2017</td>
<td>1,800</td>
<td>105</td>
</tr>
<tr>
<td>2018</td>
<td>1,850</td>
<td>106</td>
</tr>
</tbody>
</table>

i) What is the inflation rate for the year ending 2018?

ii) What is the economic growth rate in Real Gross Domestic Product (GDP) between 2016 and 2017?

iii) Explain the possible relationship between Real GDP and the Consumer Price Index (CPI) using the data above.

(6 marks)
Question 15

Unemployment Rate in Australia 2014-2019

Sourced from tradingeconomics.com (2019)

Australian Unemployment Statistics

<table>
<thead>
<tr>
<th>Labour Statistic</th>
<th>Number (thousands) July 2019</th>
<th>Number (thousands) July 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Working age population</td>
<td>20,645</td>
<td>20,010</td>
</tr>
<tr>
<td>Total Labour force</td>
<td>13,572</td>
<td>12,570</td>
</tr>
<tr>
<td>Number of persons unemployed</td>
<td>702</td>
<td>715</td>
</tr>
<tr>
<td>Number of persons employed</td>
<td>12,870</td>
<td>11,855</td>
</tr>
</tbody>
</table>

i) Calculate the unemployment rate for July 2015.

ii) Calculate the labour force participation rate in the Australian economy in July 2019.

iii) Using the table and graph above, explain the trend in Australia’s unemployment rate between 2015 and 2019.

(6 marks)
You **MUST** answer **TWO** questions from this Unit.

You are encouraged to include diagrams where relevant.

**Question 16**

There has been a recent (hypothetical) policy decision from the Australian government to increase the level of subsidies available to Australian agricultural producers of wheat who export their supply overseas.

i) On a diagram, show the effect of the increased subsidy on Australian wheat exports.

ii) Explain how the increased subsidy on Australian wheat could affect Australian producers of wheat.

iii) Using a diagram, explain how the increased subsidy on Australian wheat could affect world producers of wheat.

(6 marks)
Question 17

Exchange Rate Data for the Australian Dollar against major world currencies
March 2017 to April 2019

<table>
<thead>
<tr>
<th>Month/Year</th>
<th>US Dollar</th>
<th>Japanese Yen</th>
<th>Euro</th>
<th>UK Pound</th>
</tr>
</thead>
<tbody>
<tr>
<td>March 2017</td>
<td>0.75</td>
<td>86.18</td>
<td>0.71</td>
<td>0.61</td>
</tr>
<tr>
<td>September 2017</td>
<td>0.78</td>
<td>87.59</td>
<td>0.67</td>
<td>0.60</td>
</tr>
<tr>
<td>March 2018</td>
<td>0.78</td>
<td>85.20</td>
<td>0.63</td>
<td>0.56</td>
</tr>
<tr>
<td>September 2018</td>
<td>0.73</td>
<td>81.50</td>
<td>0.62</td>
<td>0.56</td>
</tr>
<tr>
<td>April 2019</td>
<td>0.70</td>
<td>78.76</td>
<td>0.63</td>
<td>0.54</td>
</tr>
</tbody>
</table>

Source: ABS (2019)

i) Describe the trend of the Australian Dollar in comparison with the Japanese Yen between March 2017 and April 2019.

ii) Draw ONE conclusion about the Australian Dollar in comparison with the Euro.

iii) Explain TWO reasons why the trend in relation to the Australian Dollar compared with the major world currencies might have occurred.

(6 marks)
i) Analyse the data above to describe the trend of Australia’s foreign debt between July 2016 and January 2019.

ii) Give TWO possible reasons why Australia has a high level of foreign debt.

iii) Using data from the graph, draw ONE conclusion about the level of foreign debt in Australia.

(6 marks)
ECONOMICS
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SECTION C
Time allocated: 90 minutes

Candidate Instructions
1. Make sure that your responses to the questions in this examination paper will show your achievement in the criteria being assessed.
2. You MUST answer TWO questions within this section:
   - ALL PARTS of EITHER Question 19 OR Question 20 and,
   - ALL PARTS of EITHER Question 21 OR Question 22
3. You must write concise and clear answers for each of the questions you have chosen.
4. You are encouraged to include diagrams where relevant.
5. Answers must be written in the answer booklet provided.
6. Each question is worth 36 marks. 72 marks in total for Section C.
7. This examination is 3 hours in length. It is recommended that you spend approximately 90 minutes in total answering the questions in this booklet.
8. All written responses must be in English.

On the basis of your performance in this examination, the examiners will provide results on each of the following criteria taken from the course document:

Criterion 3 Describe and analyse problems arising from economic issues and events.
Criterion 4 Describe and analyse economic solutions and make recommendations for future economic action.
Criterion 5 Communicate economic ideas and information.
You MUST answer ALL PARTS of EITHER Question 19 OR Question 20.
You are encouraged to include diagrams where relevant.

Question 19

With rate cuts and the real risk of a recession ahead, can Australia's economic run of luck continue?

The official interest rate (at June 2019) is at a record low of 1.5 per cent. Economists are guessing how many more interest rate cuts are to come. Some are predicting as many as four in the next 12 months.

That points to a weak economy, vulnerable to a growing list of potential international shocks. Just two months ago, we were promised a decade of federal budget surpluses based upon a strong and recovering economy.

Wages growth has slumped and savings have fallen. The housing boom is but a distant memory. So, when the unemployment rate ticked higher last month, the Reserve Bank was left with no alternative; interest rates had to be cut and lending restrictions loosened. Inflation was recorded at zero for the March quarter, wages growth is stagnant and retail sales are poor. That followed slowing business investment data.

No-one is mentioning a recession yet. This time last year real GDP numbers were strong. In the second half of last year, the economy suddenly weakened and annual growth was recorded at just 1.6 per cent.

There's just one part of the economy that is doing well. And that's exports. More specifically, our iron ore exports have been forging ahead. Iron ore prices have soared. That export performance may lift real GDP. Unfortunately, given our mining industry is dominated by foreign owners, most of that cash ultimately flows out of the country.

When the Reserve Bank cuts rates, it has more than just home owners in mind. One aim is to force the Australian dollar lower. That helps boost our export income and makes our local industries more competitive. Unfortunately, our temporary iron ore export boom could prevent a dramatic fall in the currency, which means this RBA strategy could have little or no impact.


Criterion 3

a) Describe what is happening within the Australian economy that left the Reserve Bank with 'no alternative' but to cut interest rates. (6 Marks)

b) Evaluate the potential cost to the Australian economy of slowing economic growth, which was recorded ‘… at just 1.6%’. (6 Marks)

c) Evaluate the costs and benefits to individuals of inflation being ‘…recorded at zero for the March quarter’. (6 Marks)

Criterion 4

d) Evaluate the possible benefits to individuals and business owners if an 'official interest rate is at a record low of 1.5 per cent.' (6 Marks)

e) Explain ONE economic solution, other than lowering interest rates, that could help the Australian economy recover from slowing economic growth. (6 Marks)

f) Assess the potential implications of ‘as many as four’ interest rate cuts from the Reserve Bank in terms of social justice and practical limitations. (6 Marks)
Australia's economic growth slowest in 10 years amid calls for swift action
Coalition says $100bn package and planned tax cuts are potential boosters for the Australian economy

The Australian economy grew by just 0.4% in the March quarter, contributing to an adjusted growth rate of 1.8%. The result contrasts with real GDP growth of 2.25% forecast in the budget. The Treasurer, Josh Frydenberg, told reporters in Canberra that although annual growth had slipped from 2.4% to 1.8%, this was still comparable to other developed economies.

Frydenberg pointed to existing measures including the $100bn 10-year infrastructure package and $1,080 planned tax cut for low to middle-income earners as potential boosters for the Australian economy. He said the government would aim to bring infrastructure investment forward.

“We have got a national economy which has gone from being the 8th fastest growing in the OECD in 2013 when the government changed hands, to now being the 20th fastest growing economy in the OECD”. The result was weighed down by falling investment (down 2.5% in the quarter) and slowing household consumption (down to 0.3%).

“Both monetary and fiscal policy stimulus are needed to reduce unemployment and revive inflation. But businesses also need to respond through increased investment.” In seasonally adjusted terms, household consumption grew by 1.8% for the last year, the lowest since June 2013, compared with 2.25% forecast for 2018-19 in the budget. Government spending, particularly in disability and health services grew by 5% through the year.

On Tuesday the Reserve Bank cut the cash rate to a record-low 1.25%, in a bid to bolster a softening economy, and further interest rate cuts are expected. The RBA will likely “be forced to cut rates to 0.75%, from 1.25% today”. The Australian Council of Trade Unions blamed six years of near-record low wage growth for the result, with the assistant secretary, Liam O’Brien, warning the “wages crisis … is now slowing the entire economy”.

Adapted from: https://www.theguardian.com/business/2019/jun/05/australias-economic-growth-slowest-in-10-years-amid-calls-for-swift-action

Criterion 3

a) Using examples from the article, explain the causes of low rates of economic growth in Australia. (6 Marks)

b) Evaluate the possible impact of slowing economic growth on unemployment and inflation. (6 Marks)

c) Critically analyse the ‘… $1,080 of planned tax cuts for low- to middle-income earners as potential boosters for the Australian economy’ in terms of social justice and practical limitations. (6 Marks)

Criterion 4

d) Explain how a ‘fiscal policy stimulus’ could help ‘revive inflation’. (6 Marks)

e) Evaluate the potential costs and benefits of a ‘fiscal policy stimulus’ on individuals and businesses. (6 Marks)

f) Briefly compare and contrast monetary and fiscal policy as possible solutions to increase economic growth. (6 Marks)
You MUST answer ALL PARTS of EITHER Question 21 OR Question 22.

You are encouraged to include diagrams where relevant.

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**Question 21**

**Global trade is under greatest threat since WWII, Productivity Commission says**

Australia should cut trade barriers, remove tariffs and review millions of dollars in assistance to farmers, the government's top economic advisory body has found, as it warns the world trading system is under greater strain than at any time since the 1930s. A day after global finance ministers failed to forge a way forward out of the US$250 billion US-China trade dispute at the G20 in Japan, the Productivity Commission said Australia must lead by example by encouraging foreign investment by removing trade protection policies.

Australia "has continued to retreat into protectionism in some areas" through $14.4 billion in annual assistance to industries that lowered its international competitiveness. "We damage our own prosperity by maintaining tariffs, other trade restrictions and one of the most active anti-dumping regimes in the world."

"World trade has been a foundation stone of Australia's 27 years of uninterrupted economic growth. It helped deliver declining unemployment and steadily rising living standards. Sadly, world trade and the benefits it has generated can no longer be taken for granted. Australia has been unable to deal with the growth and transition of developing countries, such as India and China which can be subject to different trading rules.

Tariffs have been slashed over the past three decades, but some industries continue to receive significant assistance. Manufacturing and primary industries receive 28 per cent of Government assistance (through subsidies) while only contributing 9 per cent of value added to the Australian economy. It is claimed that funding given to farmers during drought often undermined the incentives to manage their own risks and were ineffective in supporting sustainable farming practices.


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**Criterion 3**

a) Evaluate the costs to the Australian economy of reducing trade protection barriers. (6 Marks)

b) Evaluate the impact on Australian businesses ‘by maintaining tariffs and other trade restrictions.’ (6 Marks)

c) Critically analyse the likely impacts on the Australian economy of the US increasing tariffs and China depreciating their currency in retaliation. (6 Marks)

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**Criterion 4**

d) Evaluate the possible benefits to individuals and businesses of tariffs that have ‘… been slashed over the past three decades.’ (6 Marks)

e) Analyse the implications of increased subsidies for manufacturing and primary industries in terms of social justice and environmental concerns. (6 Marks)

f) Make a recommendation as to whether ‘Manufacturing and primary industries’ should continue to ‘… receive 28 percent of Government assistance (subsidies)’. (6 Marks)
Question 22

**Australian Dollar Forecast to see Short-Term Gains**

The Australian Dollar will probably continue on an upward trend in the short-term, but eventually, the currency will fall and continue its longer-term downtrend to new lows. In the short-term the upward trend will be driven by rising commodity prices.

Australia’s largest export is iron ore which has been going up in value over the last year. This has increased demand for the Aussie Dollar from foreign importers of ore, which in turn has supported the value of the currency.

The Reserve Bank of Australia (RBA) is likely to cut interest rates by as many as three times in the next year. Lower interest rates devalue a currency because they make the country a less attractive place for investors to park their savings. A further factor is the threat of a US trade war with China undermining export demand globally, where the US has significantly increased tariffs and China has retaliated by depreciating their currency. This would hit Australia’s highly export-dependent economy especially hard.

Australia’s main strength is the shrinking current account deficit which has fallen to its lowest since the 1970s. This is seen as a positive for the currency.

Adapted from: https://www.poundsterlinglive.com/aud/11482-australian-dollar-forecast-to-see-near-term-gains-but-fall-further-out-by-amp-capital

**Criterion 3**

a) Evaluate the causes of the Australian dollar continuing ‘…its longer-term downtrend to new lows.’ (6 Marks)

b) Analyse how ‘…the threat of a US trade war with China undermining export demand globally. … would hit Australia’s highly export-dependent economy especially hard.’ (6 Marks)

c) Explain why a ‘shrinking current account deficit’ is ‘…seen as a positive for the (Australian) currency.’ (6 Marks)

**Criterion 4**

d) Evaluate the possible benefits to businesses of a depreciating Australian dollar. (6 Marks)

e) Evaluate the impact on the Australian dollar of The Reserve Bank of Australia (RBA) cutting ‘…interest rates by as many as three times in the next year.’ (6 Marks)

f) Justify ONE economic policy aimed at strengthening the Australian dollar in the long-term. (6 Marks)