



Student Name: _____

ECONOMICS UNITS 3&4 2021 Written Trial Examination

Reading time: 15 minutes

Writing time: 2 hours

QUESTION AND ANSWER BOOK

Structure of book

<i>Section</i>	<i>Number of questions</i>	<i>Number of questions to be answered</i>	<i>Number of marks</i>
A	15	5	15
B	1	1	30
			Total 75

- Students are permitted to bring into the examination room: pens, pencils, highlighters, erasers, sharpeners and rulers.
- Students are NOT permitted to bring into the examination room: blank sheets of paper and/or correction fluid/tape.
- No calculator is allowed in this examination.

Materials supplied

- Question and answer book of 24 pages
- Answer sheet for multiple-choice questions
- Additional space is available at the end of the book if you need extra space to complete an answer.

Instructions

- Write your **student number** in the space provided above on this page.
- Check that your **name** and **student number** as printed on your answer sheet for multiple-choice questions are correct, **and** sign your name in the space provided to verify this.
- All written responses must be in English.

At the end of the examination

- Place the answer sheet for multiple-choice questions inside the front cover of this book.
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Students are NOT permitted to bring mobile phones and/or any other unauthorised electronic devices into the examination room.

SECTION A – Multiple Choice

Instructions for Section A

Answer all questions in pencil on the answer sheet provided for multiple-choice questions.

Choose the response that is correct or that best answers the question.

A correct answer scores 1; an incorrect answer scores 0.

Marks will **not** be deducted for incorrect answers.

No marks will be given if more than one answer is completed for any question.

Question 1



Consider the wage price index above. Which of the following situations would best explain the trend in wages growth over the past 2 years?

- A. a decrease in the unemployment rate
- B. an increase in the underemployment rate
- C. a decrease in the participation rate
- D. a depreciation of the AUD

Question 2

An appreciation of the Australian dollar is **least likely** to lead which of the following?

- A. a decrease in the competitiveness of Australian producers overseas
- B. a decrease in the current account surplus
- C. the RBA increasing interest rates
- D. an increase in import spending by Australians

Question 3

Consider the market for new cars in Australia.

A shift in the demand curve to the right, is likely to cause the largest increase in price if:

- A. cars are durable
- B. there are many substitutes in the car market
- C. a car makes up a large percentage of household income
- D. There is no or little spare capacity

SECTION B – Written Responses**Instructions for Section B**

Answer **all** questions in the spaces provided.

Question 1 (18 marks)

- a. Consider the following market data for bananas:

Price (Per Box)	Quantity Demanded (no. of banana boxes)	Quantity Supplied (no. of banana boxes)
\$50	1100	300
\$80	800	400
\$100	700	500
\$125	400	600
\$150	50	700
\$160	0	750

Using the data above construct a fully labelled demand and supply curve. Ensure all aspects of the graphs are labelled appropriately. 4 marks



- b. Assume the price of a substitute product for bananas decreases. Draw this scenario on the graph above (Part A) and ensure all aspects of the graphs are labelled appropriately. 2 marks

- c. Explain how the banana market moves from the original equilibrium (Part A) to the new equilibrium (Part B). 3 marks

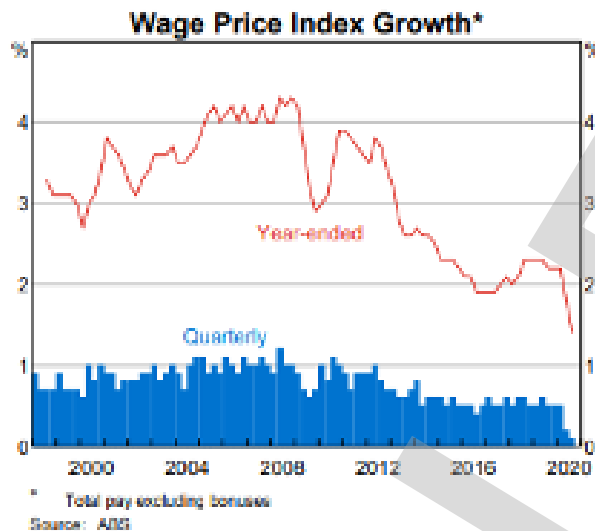
- d. Select one of the market failures below:

- Asymmetric Information
- Externalities

Explain how this type of mark failure affects the efficiency of resource allocation. 3 marks

2021 EXTRA Economics Units 3&4 Trial Exam - Sample Solutions

Question 1



Consider the wage price index above. Which of the following situations would best explain the trend in wages growth over the last 2 years?

- a) a decrease in the unemployment rate
- b) an increase in the underemployment rate
- c) a decrease in the participation rate
- d) a depreciation of the AUD

We can see on the graph that the trend in the wage growth is decreasing over the past two years. You need to find the situation which would best explain this. You should go through each possible answer working out whether there is upward or downward pressure on wage growth. The key to understanding how wages rise and fall is demand and supply. Just like any market the price of labour is determined by changes in demand and supply so it could also help to draw a D/S Diagram.

a) Incorrect. A decrease in the unemployment rate would impact the wages in the opposite way to the trend on the graph. A decrease in unemployment actually puts upward pressure on wage growth because there is less 'spare' labour available from the pool of unemployed persons. We could shift the supply curve to the left and see the upward pressure on the price of labour (wages).

b) Correct. An increase in the underemployment rate is the correct answer because it indicates that there is spare capacity or 'slack' in the labour market as more people are wanting more hours in their job. The spare capacity in the labour market could lead to a decrease in wages growth because businesses could give their employee extra hours without having to raise wages. You could draw a shift in the supply curve to the right and see that wages/wage growth would fall.

c) Incorrect. A decrease in the participation rate would usually put upward pressure on wage growth and lead to a 'tighter' job market. This is because a reduction in the labour force size will mean the pool of available labour is smaller leading to shortages and wage pressures. We could shift the supply curve to the left and see the upward pressure on the price of labour (wages).

d) Incorrect. A depreciation in the AUD means Australian exports are cheaper for overseas buyers leading to an increase in X, C and AD which would create a derived demand for labour, decrease cyclical unemployment and put upward pressure on wage growth. We could shift the demand curve to the right and see the upward pressure on the price of labour (wages).