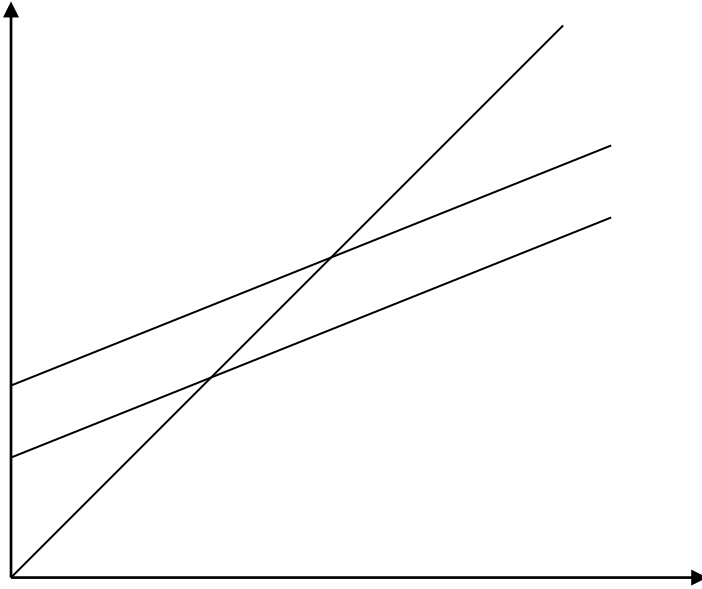


UNIT 3B ECO Sample Data Interpretation Tasks

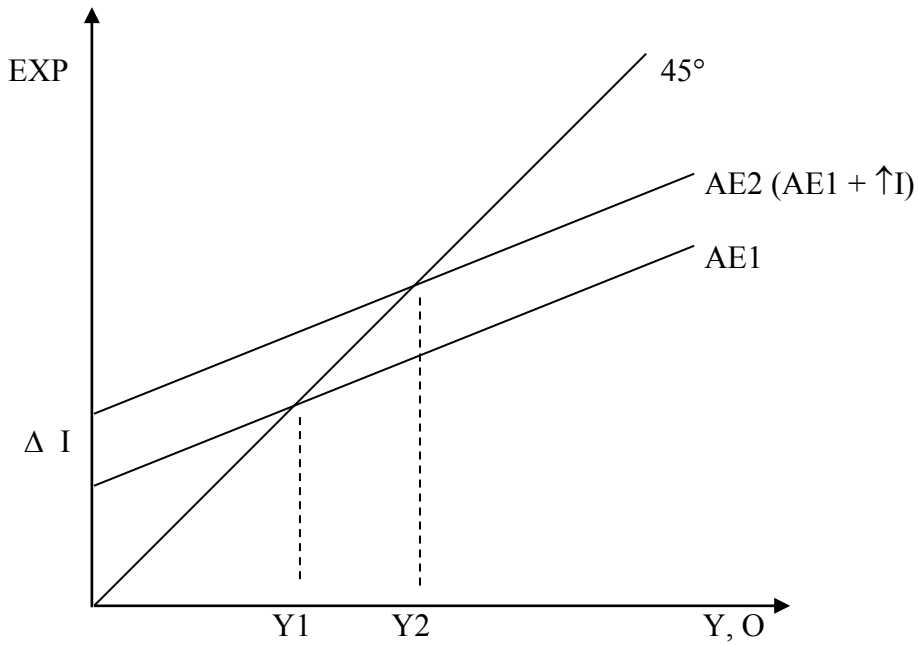
1. Multiplier

This question refers to the Keynesian expenditure diagram below.



- (a) Correctly label the above diagram so as to illustrate an increase in investment, resulting from BHP's expansion to meet increased demand from India. (2 marks)
- (b) Explain how an understanding of the multiplier may be useful for policy makers. (4 marks)
- (c) Use the diagram to explain the effect of an increase in investment on the Australian economy. (6 marks)

1. Multiplier



Part (a)

Description	Marks
• See above model	2
Total	2

Part (b)

Description	Marks
• Multiplier definition.	1
• Desired change in Y requires smaller change in injection/withdrawal.	1-2
• Policy examples	1-2
Total	4

Part (c)

Description	Marks
• Explain multiplier process (refer to diagram)	1-2
New, higher equilibrium Y where $S = I$. Larger change in Y than change in I.	2
• Effect on spending, output and employment. Capacity constraints limit flow-on effects.	1-3
Total	6

2. Macro – Productivity/Unemployment

This question refers to the table below. This table relates to the Australian economy.

Year	GDP (% change)	GDP per hour worked	Nominal Non-farm Sector Real Unit Labour Costs	Unemployment
2002	3.2	97.7	102.5	6.2
2003	4.1	99.7	101.1	5.8
2004	2.7	100.0	100.0	5.3
2005	3.0	101.1	99.2	5.1
2006	3.2	101.3	98.8	4.6
2007	3.5	101.9	99.2	4.5

Source: Australian Economic Statistics (Robert Prince et al)

(a) Why might the rate of increase of ‘GDP per hour worked’ have slowed in recent years?

(2 marks)

(b) Use data from the table to describe the trends in productivity and competitiveness since 2002.

(4 marks)

(c) Use data from the table to evaluate Australia’s macroeconomic success since 2002.

(6 marks)

Part (a)

Description	Marks
• Low unemployment (below natural rate), thus lesser skilled workers being employed.	1-2
• Capacity constraints.	1
Total	2

Part (b)

Description	Marks
• Productivity (GDP per hour) has increased from 97.7 to 101.9	1-2
• Competitiveness (unit labour costs) has increased as costs have reduced from 102.5 to 99.2. Relate to export and import competing businesses.	1-3
Total	4

Part (c)

Description	Marks
• Macro success	1
• Unemployment decreasing from 6.2 to 4.5; Lower per unit costs reduces inflationary pressures, as does increased GDP per hour; Eco growth reflected by increased productivity/efficiency and increased GDP each year.	1-5
Total	6

3. Macroeconomic indicators

This question refers to the two graphs below.

- (a) The trend, since 2003, is that household interest paid as a percentage of disposable income is _____.
Household debt has become greater than household disposable income since _____. (2 marks)
- (b) Describe any relationships that appear to exist between the measures, in the above graphs, since 2003. (3 marks)
- (c) Explain how the change in household debt and interest paid, since 2007, may have impacted on demand and output. (5 marks)

Part (a)

Description	Marks
• Increasing.	1
• 2001.	
Total	2

Part (b)

Description	Marks
• As debt % ↑, interest paid % ↑.	1
• Final demand and GDP have same pattern.	1
• GDP/Final demand gap = Net exports deficit.	1
• State data from the graphs.	
Total	4

Part (c)

Description	Marks
• Increased household debt leads to increased interest paid (%Yd).	1
• Increased interest leads to less discretionary spending Y, which leads to lower levels of consumption, output and investment.	1-2
• State data from graphs.	1
• 2008 demand/GDP below 'desired' level.	1
• Contractionary impact on the economy.	1
Total	6

4. Fiscal Policy/Monetary Policy

This question refers to the cartoon below.



th 2007

NB: Between 2005/06 and 2007/08 the Federal Government ran Budget surpluses. During the same time the RBA had been increasing its cash rate.

- (a) The cartoon relates to the 2007/08 Budget. What changes does the cartoon depict Mr Costello to have made? (2 marks)
- (b) Explain the likely effect of this budgetary change on income earners. (4 marks)
- (c) Explain how this policy stance could be in conflict with the RBA's monetary policy stance. (6 marks)

Part (a)

Description	Marks
• Increased expenditure &/or tax benefits for low income earners.	1-2
• Reduced surplus.	1
Total	2

Part (b)

Description	Marks
• Reduced surplus 'should' have expansionary effect.	1
• Increased Yd for low income earners leads to increased consumption and standard of living.	1-2
Total	4

Part (c)

Description	Marks
• FP – expansionary/political (tax cuts) creates increased demand, output, investment and employment (economic growth).	1-2
• MP – contractionary ($\uparrow i/r$); concerned with inflationary pressures of \uparrow demand, given capacity constraints).	1-2
• FP may have some role in $i/r \uparrow$.	1
• FP and MP are in conflict.	1
• May use an AD/AS model.	1
Total	6