

ECONOMICS 2A/2B

Semester 1, 2009

Name: _____

Teacher: _____

Time allowed for this paper

Reading time before commencing work: Ten minutes
Working time for paper: Two hours

Materials required/recommended for this paper

To be provided by the supervisor

This Question/Answer Booklet
Multiple Choice Answer Sheet
Question Sheet for Section C

To be provided by the candidate

Standard items: Pens, pencils, eraser or correction fluid, ruler, highlighter
Special items: A 2B, B or HB pencil for the separate Multiple Choice Answer Sheet and calculators satisfying the conditions set by the Curriculum Council for this subject.

Important note to candidates

No other items may be taken into the examination room. It is your responsibility to ensure that you do not have any unauthorised notes or other items of a non-personal nature in the examination room. If you have any unauthorised material with you, hand it to the supervisor before reading any further.

Structure of this paper

Section	No. of questions available	No. of questions to be attempted	Suggested working time	Marks available
A: Multiple Choice	20	All	20 minutes	20
B: Data Interpretation	2	All	60 minutes	30
C: Extended Writing	2	1	40 minutes	20
Total marks				70

Instructions to candidates

Section A Answer **all** questions, using a 2B, B or HB pencil, on the separate Multiple Choice Answer Sheet. Do not use a ball point or ink pen.

Section B Write your answers in the spaces provided in this Questions/Answer Booklet. A blue or black ball point or ink pen should be used.

Section C Write your answers in this Question/Answer Booklet. Answer on the pages following the end of questions. The questions for this section have been repeated on a removable question sheet. Do not write answers on the removable question sheet.

Spare answer pages may be found at the end of this booklet. If you need to use them, indicate in the original answer space where the answer is continued (i.e. give the page number).

SECTION A**Multiple Choice Questions (20 marks)**

Suggested time: 20 minutes

Attempt all questions from this section. Choose the alternative which correctly answers the question or completes the statement. Record your answers on the separate Multiple Choice Answer Sheet using a 2B, B or HB pencil.

Each question is worth 1 mark.

1. Microeconomics may be defined as the study of
 - (a) the “big picture” in the national economy.
 - (b) demographic trends in urban populations.
 - (c) the role of the Reserve Bank in regulating the money supply.
 - (d) none of the above.

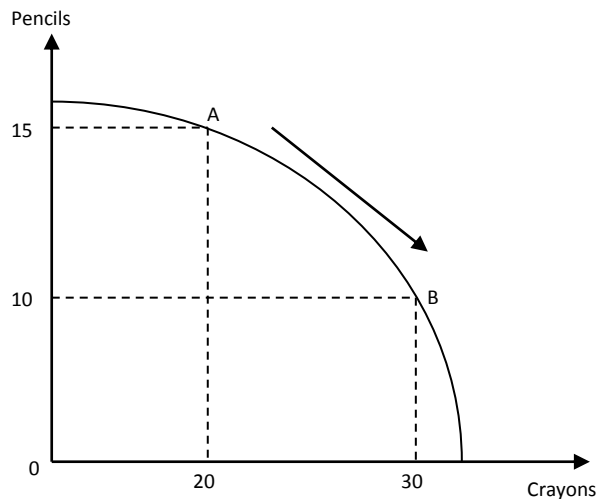
2. The fundamental economic problem is
 - (a) how to maximise the quantity of goods and services consumed every year.
 - (b) how to increase the stock of capital equipment that labour utilises to produce goods and provide services.
 - (c) how to sustain the use of natural resources and protect the environment.
 - (d) how to allocate limited resources to produce the goods and services most desired by members of society.

3. Which of the following questions raised by the economic problem is not influenced by the consumer in a market economy?
 - (a) What goods and services to produce?
 - (b) How many goods and services to produce?
 - (c) How to produce the goods and services?
 - (d) For whom to produce the goods and services?

4. The opportunity cost of spending \$160 to go to a concert is
 - (a) the best alternative use of the \$160.
 - (b) the best alternative use of the time attending the concert.
 - (c) the best alternative use of both the \$160 and the time attending the concert.
 - (d) the alternative use of the resources involved in producing the concert.

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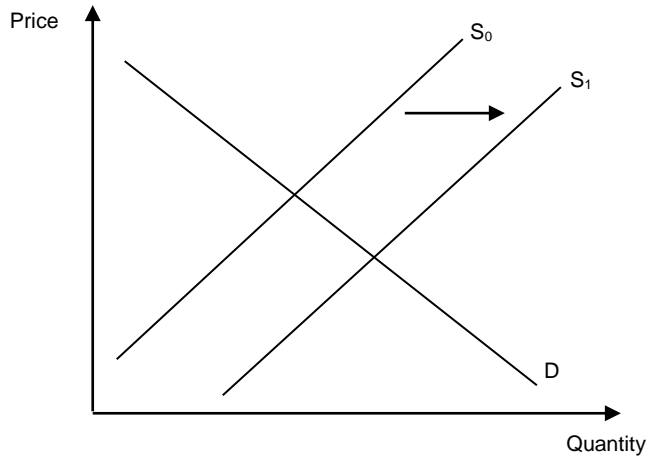
5. How is technological progress represented by a production possibility frontier?
- An outward movement in the production possibility frontier.
 - A movement along the production possibility frontier.
 - An inward movement of the production possibility frontier.
 - No change in the production possibility frontier.
6. This question relates to the following diagram:



A movement from production possibility A to production possibility B involves an opportunity cost of

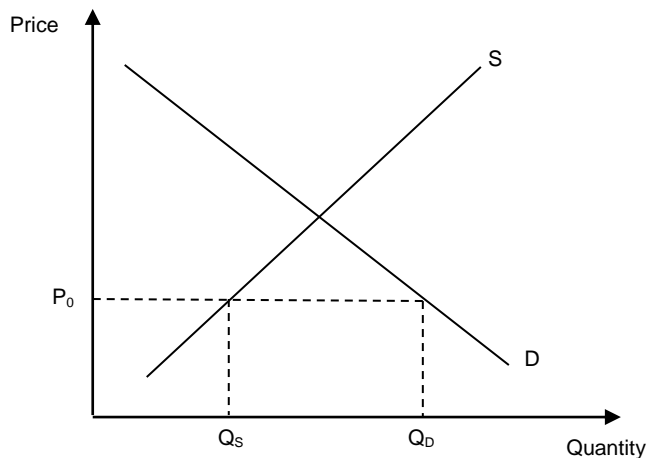
- 5 crayons.
 - 15 crayons.
 - 10 pencils.
 - 5 pencils.
7. The law of demand states that as price rises,
- the quantity demanded will fall.
 - the quantity demanded will rise.
 - the demand curve will shift to the right.
 - quantity demanded will fall due to a decrease in demand.
8. The price mechanism
- is a machine which records the prices charged by firms in an economy.
 - allows prices to be determined by the forces of demand and supply in a market.
 - allows prices to be determined by governments in a mixed economy.
 - is known as the invisible hand in a planned economy.

9. Consider the following demand and supply diagram, for airline tickets from Perth to London.



This shift in the supply curve could have been caused by

- (a) an increase in the demand for airline tickets to London
 - (b) a decrease in the price of airline tickets to London
 - (c) a decrease in the cost of aviation fuel
 - (d) an increase in the price of airline tickets from Perth to New York.
10. This question relates to the following diagram, showing the market for chocolate milk.



Assume the price of chocolate milk is currently P_0 . As the market moves towards equilibrium, it will experience

- (a) a decrease in demand and an expansion in supply.
- (b) a contraction in demand and an expansion in supply.
- (c) a decrease in demand and an increase in supply.
- (d) a contraction in demand and an increase in supply.

11. An increase in the tax on petrol is imposed by the government in order to raise revenue. This decision suggests that the demand for petrol is likely to be
- (a) income elastic
 - (b) income inelastic
 - (c) price elastic
 - (d) price inelastic.
12. A good for which the demand is highly price elastic is most likely to be
- (a) addictive.
 - (b) a necessity.
 - (c) a unique product.
 - (d) a good with many substitutes.
13. When the price of lollipops rises from \$1 to \$1.10, the quantity supplied rises from 200 to 250 units. The supply of lollipops is therefore
- (a) price elastic.
 - (b) price inelastic.
 - (c) unrelated to changes in the price of lollipops.
 - (d) impossible to determine from the information given.
14. Imposing a price which is less than the equilibrium price will lead to
- (a) an oversupply or surplus in the production of output
 - (b) an inefficient allocation of resources and a shortage in supply
 - (c) an expansion in supply as producers attempt to maximise profit
 - (d) a contraction in supply as producers respond to lower prices.
15. Which of the following items would not be classified as "land" by an economist?
- (a) MLC's Middle School building
 - (b) Norfolk Island Pines outside the Centenary Building
 - (c) Tom Price iron ore deposit
 - (d) Pearls found in the waters near Broome
16. Which of the following situations contains an example of producer surplus?
- (a) a consumer would be willing to pay \$100 for a widget but is able to get it for only \$20.
 - (b) at a price of \$100, producers would be willing to produce 5000 widgets but buyers would only be willing to purchase 2000.
 - (c) a producer would be willing to sell widgets for \$100 but the market price is \$150.
 - (d) a maker of widgets thought he needed four people to produce 500 widgets, but when he hired four people, they produced 800 widgets.

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17. Which of the following provides a definition of a consumer surplus?
- (a) The total value placed on products by the market
 - (b) The difference between the consumer's willingness to pay and the price actually paid for the product
 - (c) The difference between the consumer's willingness to pay and the firm's cost of the product
 - (d) The total value placed on products by consumers.
18. Advertising could
- (a) increase profits by increasing demand.
 - (b) decrease profits by increasing costs.
 - (c) made demand more price inelastic.
 - (d) All of the above.
19. In the simple circular flow of income, the real flow includes
- (a) the flows of income and consumer spending.
 - (b) the flows of resources and output.
 - (c) the flows of income and resources.
 - (d) the flows of consumer spending and output.
20. Which of the following statements about the short run is incorrect?
- (a) In the short run, most firms can hire more labour.
 - (b) In the short run, most firms can not build a new warehouse.
 - (c) The length of the short run is different for different firms.
 - (d) The length of the short run is different in different countries.

SECTION B

Data interpretation (30 marks)

Suggested time: 60 minutes

Answer BOTH (2) questions. Each question is worth 15 marks.

Write your answers in the spaces provided under each part question.

21. This question relates to the cartoon below. The cartoon is referring to the market for childcare places in Australia in 2006.



- a) Define *demand*. (2 marks)

- b) What is the difference between an *expansion* in demand and an *increase* in demand? (2 marks)

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- c) Briefly explain three factors which would lead to an increase in demand for childcare places. (3 marks)

- d) In the space below, draw and fully label a diagram illustrating the effect which an increase in demand would have on the market for childcare places. (3 marks)

- e) With reference to the diagram you drew in part (d), fully explain the process by which the childcare market would adjust to the increase in demand. (5 marks)

23. This question relates to the following passage.

Price Elasticity of Demand for Tobacco Products

While demand for tobacco products is not as elastic as demand for many other consumer products, research has consistently demonstrated that increases in the price of tobacco products are followed by moderate falls in both the percentage of people smoking and the amount or number of tobacco products that remaining smokers consume. Because increases in tobacco taxes result in higher tobacco prices for everyone, even small reductions in tobacco use by particular individuals can translate into very large reductions across the whole population.

In 1999, a World Bank review concluded that, all else being equal, price rises of about 10% would on average reduce tobacco consumption by about 4%... In their more recent analysis..., Gallet and List found... that, on average, a 10% increase in price will be followed by a decrease in consumption of 4.8%. Subsequent research has found similar levels of elasticity.

- a) Define *price elasticity of demand*. (2 marks)

- b) According to the information in the passage, is demand for tobacco price elastic? Briefly explain. (3 marks)

SECTION C**Extended Writing (20 marks)**

Suggested time: 40 minutes

Answer EITHER question 24 OR question 25. Each question is worth 20 marks.

Write your answer in the Question/Answer Booklet using the pages which follow the end of Section C. Number your responses clearly. The questions in this section are available as a separate sheet for easier reference while you are writing your answers.

24. a) Outline the resources that can be used to satisfy wants. (6 marks)
- b) Explain why the economic problem is one of relative scarcity. (3 marks)
- c) Use an economic model to illustrate that the economic problem is also one of choice. (11 marks)
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OR

25. a) Explain why total surplus is only maximised at equilibrium. (8 marks)
- b) Suppose that in an attempt to save water, the government restricts the amount of water available for sale. Discuss the impact this quota would have on the efficiency of the water market. (8 marks)
- c) Explain how this situation illustrates the trade-off between efficiency and equity. (4 marks)
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END OF QUESTIONS

Check that you have written your name on the front cover of this booklet and on the Multiple Choice Answer Sheet.