ERUVIO MENTORING · EXTERNAL-STYLE EXAMINATION

Economics

Unit 4 · Contemporary macroeconomics

Combination response

ALL SECTIONS · 61 MARKS

STUDENT DETAILS

GIVEN NAME(S) ____________________ FAMILY NAME ____________________

SCHOOL ____________________ DATE ____________________ BOOK OF ____________

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Structure of this examination

SECTION	QUESTION TYPE	NUMBER OF QUESTIONS	MARKS
Section 1	Multiple choice	10	10
Section 2	Short response	4	25
Section 3	Extended response, 400 to 600 words	1	26
Total	**Combination response**	**15 questions**	**61**

Assessment objectives

Questions in this examination are written against the objectives of the QCAA Economics syllabus. The marking guide records which objectives each question assesses.

	ASSESSMENT OBJECTIVE
1	Comprehend economic concepts, principles and models
2	Select economic data and information from sources
3	Analyse economic issues and data
4	Evaluate economic outcomes and policies to make decisions
5	Create responses that communicate economic meaning

Instructions

- **Perusal time: 15 minutes. Working time: 120 minutes.**
- You may use a QCAA-approved calculator. A stimulus book is provided and must be used for the questions that refer to it.
- Write using black or blue pen. Planning paper will not be marked.
- All questions are drawn from Unit 4 (contemporary macroeconomics): macroeconomic objectives and theory, and economic management, policies and impacts.
- **Section 1** contains 10 multiple choice questions worth 1 mark each.
- **Section 2** contains 4 short response questions worth 25 marks in total.
- **Section 3** contains one extended response worth 26 marks. Your response should be 400 to 600 words of continuous prose.

Answer all questions. Section 1 answers must be recorded on the response grid at the end of Section 1.

Section 1

Multiple choice · 10 questions · 10 marks

1 An economy in which real GDP has fallen for two consecutive quarters, while unemployment has risen, is in

A an expansion.

B a contraction.

C a peak.

D a boom.

2 Real gross domestic product differs from nominal gross domestic product in that real GDP

A includes only goods and excludes services.

B measures output using the prices of the current year.

C excludes government spending from the total.

D has been adjusted to remove the effect of price changes.

3 In a simple model with no taxation or trade, the marginal propensity to consume is 0.8. The value of the multiplier is

A 1.25

B 4

C 5

D 8

4 A worker loses their job because automation has permanently removed the tasks they were employed to perform. This worker is best described as

A structurally unemployed.

B frictionally unemployed.

C cyclically unemployed.

D seasonally unemployed.

5 An economy has a labour force of 12.0 million people, of whom 456 000 are unemployed. The unemployment rate is

A 3.0%

B 3.8%

C 4.2%

D 4.6%

6 Cost-push inflation is best described as inflation caused by

A aggregate demand exceeding the productive capacity of the economy.

B a sustained increase in consumer confidence.

C an increase in government spending financed by borrowing.

D an increase in the costs of production, such as wages or imported inputs.

7 The consumer price index rises from 125.0 to 130.0 over one year. The annual rate of inflation is

A 4.0%
B 5.0%
C 12.5%
D 25.0%

8 An increase in the cash rate set by the central bank is most likely to

A increase aggregate demand by encouraging households to borrow.
B raise the rate of inflation in the short term.
C reduce aggregate demand by raising borrowing costs and rewarding saving.
D cause the domestic currency to depreciate against major currencies.

9 A government moves from a budget deficit in one year to a budget surplus in the next, after allowing for the effects of the business cycle. This represents

A expansionary fiscal policy.
B contractionary fiscal policy.
C expansionary monetary policy.
D the operation of automatic stabilisers only.

10 A Lorenz curve that lies further away from the line of equality indicates

A a lower Gini coefficient for that economy.
B a more equal distribution of income across households.
C that income is shared equally among all households.
D a less equal distribution of income and a higher Gini coefficient.

Section 1 response grid

Shade or cross the box for your chosen answer

Question	A	B	C	D
1				
2				
3				
4				
5				
6				
7				
8				
9				
10				

Section 2

Short response · 4 questions · 25 marks

11 Refer to **Source 3** in the stimulus book. [6 marks]

(a) Describe what happened to economic growth, unemployment and inflation over the three years shown. [3]

(b) Calculate the change in real wages in each year, and explain what your results show about the living standards of wage earners. [3]

WORKING

Year 1 = ______ %

Year 2 = ______ %

Year 3 = ______ %

12 Refer to **Source 2** in the stimulus book. [6 marks]

(a) Identify the change shown in Source 2 and state two factors that could have caused it. [2]

(b) Explain the effect of this change on economic growth and on the price level, and identify the macroeconomic objective that is placed at risk. [4]

13 Refer to **Source 1** in the stimulus book. [6 marks]

(a) Describe the relationship between the cash rate and the inflation rate over the period shown. [3]

(b) Explain the transmission mechanism by which a higher cash rate reduces inflation. [3]

14 Refer to **Source 4** in the stimulus book. [7 marks]

(a) State the budget position in each of the three years, and identify the fiscal stance the government adopted in Year 2. [3]

Year 1 ______ Year 2 ______

Year 3 ______ Stance in Year 2 ______

(b) Using Source 1 and Source 4, analyse whether fiscal policy reinforced or offset monetary policy over the three years. [4]

Section 3

Extended response · 1 question · 26 marks

15 Over the three years covered by the stimulus book, the central bank of this economy raised the cash rate from 0.10% to a peak of 4.35% before easing, while the government moved from deficit to surplus and back to deficit. [26 marks]

Task. Using **Source 1**, **Source 3**, **Source 4** and **Source 5**, and your own economic knowledge, **evaluate** the effectiveness of monetary policy in achieving this economy's macroeconomic objectives over the period. Reach a justified conclusion about whether monetary policy should carry the main burden of stabilisation in this economy.

Write **400 to 600 words** of continuous prose. You may use a diagram to support your response, but a diagram alone will not earn marks.

PLANNING SPACE · NOT MARKED

END OF PAPER