



**Methodist Ladies' College
Semester 1 Examination, 2016**

Question/Answer Booklet

**ECONOMICS
ATAR Year 11**

Student Name: _____

Teacher Name: _____

Time allowed for this paper

Reading time before commencing work: ten minutes
Working time for paper: two and a half hours

Materials required/recommended for this paper

To be provided by the supervisor

This Question/Answer Booklet
Multiple-choice Answer Sheet

Number of additional
answer booklets used
(if applicable):

To be provided by the candidate

Standard items: pens (blue/black preferred), pencils (including coloured), sharpener,
correction fluid/tape, eraser, ruler, highlighters
Special items: non-programmable calculators approved for use in the WACE
examinations

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	Number of questions available	Number of questions to be answered	Suggested working time (minutes)	Marks available	Percentage of total exam	Your mark
Section One: Multiple-choice	24	24	30	24	26	
Section Two: Data interpretation/ Short response	4	4	80	48	52	
Section Three: Extended response	2	1	40	20	22	
Total					100	

Instructions to candidates

- The rules for the conduct of ATAR course examinations are detailed in the 2016 Year 12 Information Handbook. Sitting this examination implies that you agree to abide by these rules.
- Answer the questions according to the following instructions.

Section One: Answer **all** questions on the separate Multiple-choice Answer Sheet provided. For each question, shade the box to indicate your answer. Use only a blue or black pen to shade the boxes. If you make a mistake, place a cross through the square, then shade your new answer. Do not erase or use correction fluid/tape. Marks will not be deducted for incorrect answer. No marks will be given if more than one answer is completed for any question.

Sections Two and Three: Write your answers in this Question/Answer Booklet.

- You must be careful to confine your responses to the specific questions asked and to follow any instruction that are specific to a particular questions.
- Spare pages are included at the end of this booklet. They can be used for planning your responses and/or as additional space if required to continue an answer.
 - Planning: If you use the spare pages for planning, indicate this clearly at the top of the page.
 - Continuing an answer: If you need to use the space to continue an answer, indicate in the original answer space where the answer is continued, i.e. give the page number. Fill in the number of the questions that you are continuing to answer at the top of the page.

Section One: Multiple-choice**26% (24 Marks)**

This section has **24** questions. Answer **all** questions on the separate Multiple-choice Answer Sheet provided. For each question, shade the box to indicate your answer. Use only a blue or black pen to shade the boxes. If you make a mistake, place a cross through that square, then shade your new answer. Do not erase or use correction fluid/tape. Marks will not be deducted for incorrect answers. No marks will be given if more than one answer is completed for any question.

Suggested working time: 30 minutes.

1. "The cash rate in Australia should be lowered in June 2016" according to many economic commentators and journalists. Such a statement is an example of
 - (a) A normative statement.
 - (b) A true statement.
 - (c) A positive statement.
 - (d) An objective statement.

2. The income streams associated with the resources capital and land are
 - (a) Wages and rent.
 - (b) Rent and profit.
 - (c) Interest and rent.
 - (d) Wages and profit.

3. The demand and supply of capital is part of the:
 - (a) Factor market.
 - (b) Product market.
 - (c) Supermarket.
 - (d) Secondary market.

4. An increase in the cost of one or more of the factors of production would result in
 - (a) A contraction in supply.
 - (b) An expansion in supply.
 - (c) A decrease in supply.
 - (d) An increase in supply.

5. Which of the following would cause an increase in the demand for rental accommodation in Perth?
 - (a) A fall in the price of rental accommodation
 - (b) An increase in the population of Perth
 - (c) A fall in house prices
 - (d) An increase in the cost of home removal services

See next page

6. If both the demand for and the supply of roses increase near Valentine's Day, we could expect
- (a) Both the price and quantity of roses traded to increase
 - (b) The price of roses to fall, but the quantity of roses traded to increase
 - (c) The quantity of roses traded to increase, but the equilibrium price to either rise or fall or stay the same
 - (d) The price of roses to increase, but the quantity traded could either increase or decrease or stay the same
7. If bread and butter are complementary goods, and if the cost of producing bread falls
- (a) The price of both butter and bread will fall
 - (b) The price of butter will rise, but the price of bread will fall
 - (c) The price of butter will fall, but the price of bread will rise
 - (d) The price of both butter and bread will rise
8. A good for which the demand is unitary elastic has a price elasticity coefficient that is
- (a) Less than one.
 - (b) Equal to one.
 - (c) Greater than one.
 - (d) Less than zero.
9. Which of the following is a correct definition for income elasticity of demand?
- (a) The effect on the quantity of a good sold as a result of a change in its price.
 - (b) The effect on the quantity of a good demanded as a result of a change in its costs.
 - (c) The effect on the quantity of a good demanded as a result of a change in income.
 - (d) The effect on the quantity of a good demanded as a result of a change in the price of a substitute good.
10. A good for which the level of demand is perfectly elastic has a demand curve which is
- (a) A vertical straight line.
 - (b) A horizontal straight line.
 - (c) Unable to be determined from the information provided.
 - (d) A parabolic curve.
11. A good which has a negative income elasticity of demand is
- (a) Luxury.
 - (b) Inferior.
 - (c) Essential.
 - (d) Normal.

12. If the price of a good rises and total sales revenue increases, we can say that the
- (a) Price elasticity of demand is inelastic.
 - (b) Price elasticity of supply is elastic.
 - (c) Income elasticity of supply is inelastic.
 - (d) Cross elasticity of demand is elastic.
13. A price ceiling will create
- (a) An expansion in supply as producers reacts to the higher prices.
 - (b) A shortage in supply as producers attempt to maximise profits.
 - (c) A surplus in the production of output in relation to demand.
 - (d) An efficient allocation of resources and an oversupply.
14. Economic efficiency in a market occurs when:
- (a) Producer surplus is less than consumer surplus.
 - (b) Total surplus is at a maximum.
 - (c) The deadweight loss is maximised.
 - (d) Consumer surplus is less than producer surplus.
15. If the market for Mars bars is producing a level of output greater than the competitive equilibrium, then
- (a) For the last unit, marginal cost exceeds marginal benefit
 - (b) Total welfare is not being maximised
 - (c) Surplus has been transferred from producers to consumers
 - (d) All of the above are true
16. Suppose that the front page of a newspaper says "Economist claims mobile phones are being underproduced". It is likely the economist referred to in the article believes that
- (a) Not everyone can afford a mobile phone
 - (b) The price of mobile phones is greater than their marginal cost
 - (c) Consumer surplus in the mobile phone market equals zero
 - (d) At equilibrium, some people who wish to buy a mobile phone cannot find a seller
17. If a music lover was willing to pay \$350 to go to a concert, but was fortunate to be able to buy a ticket for \$150, her consumer surplus would be
- (a) \$150
 - (b) \$200
 - (c) \$250
 - (d) \$500
18. The significant feature of the monopoly market form is that it
- (a) Produces goods that are highly priced only.
 - (b) Allows sellers and buyers to freely exit or enter the market.
 - (c) Is efficient because of the competitive pressure.
 - (d) Can limit either price or output of a particular product or service.

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19. Which of the following industries is the best example of an oligopoly?
- (a) Newsagencies
 - (b) Pharmacies
 - (c) Private girls' schools
 - (d) Mains water supply
20. Which of the following would not be vulnerable to the free rider problem?
- (a) A council street sweeping service.
 - (b) Street lighting on roads.
 - (c) Public open space.
 - (d) A 24 hour gymnasium.
21. Goods associated with negative externalities will tend to be
- (a) Overpriced and under produced.
 - (b) Underpriced and over produced.
 - (c) Overpriced and overproduced.
 - (d) Unfavourable.
22. A firm invests in a new, environmentally sustainable method for recycling used aluminium soft drink cans. Which of the following best describes the likely economic outcome that will result from this innovation?
- (a) A positive externality and a reduction in social costs
 - (b) A negative externality and an increase in social costs
 - (c) A positive externality and a reduction in social benefits
 - (d) A negative externality and an increase in social benefits
23. A second airport is to be built in Sydney. Which of the following best describes a positive externality likely to arise from this project?
- (a) Reduced job opportunities around the second airport
 - (b) Increased traffic congestion around the second airport
 - (c) Reduced traffic congestion around the existing airport
 - (d) Increased job opportunities around the existing airport
24. If the government stopped funding education, what would happen to the market for education?
- (a) The equilibrium price would fall and the equilibrium quantity would rise
 - (b) The equilibrium price and the equilibrium quantity would fall
 - (c) The equilibrium price and the equilibrium quantity would rise
 - (d) The equilibrium price would rise and the equilibrium quantity would fall

End of Section One

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Section Two: Data interpretation/Short response**52% (48 marks)**

This section contains **three (3)** questions. Answer **all** questions. Write your answers in the spaces provided.

Spare pages are included at the end of this booklet. They can be used for planning your responses and/or as additional space if required to continue an answer.

- **Planning:** If you use the spare pages for planning, indicate this clearly at the top of the page.
- **Continuing an answer:** If you need to use the space to continue an answer, indicate in the original answer space where the answer is continued, i.e. give the page number. Fill in the number of the question that you are continuing to answer at the top of the page.

Suggested working time: 80 minutes.

Question 25**(12 marks)****Western Australia's avocado production set to boom**

ABC Landline
20 May, 2016

The spike in avocado prices last January – with some outlets selling the fruit for \$6 each – is unlikely to ever happen again, according to one of the industry's biggest players in Western Australia.

Jennie Franceschi runs one of the largest avocado packing and processing companies in WA, a state that produces more than 60 per cent of the nation's summer avocado crop. She said a perfect storm of Christmas holidays, fire, rain and transport problems led to a temporary supply problem on the east coast this year.

Avocadoes are booming in WA with new tree plantings set to quadruple the state's production. The Manjimup-based company Fresh Produce Alliance anticipates a potential oversupply issue and has invested \$5 million in a high-pressure processing facility to add value to fruit left on the ground because it fails to meet supermarket specifications.

- (a) Was the spike in avocado prices last January caused by a contraction or a decrease in supply? Explain your response. (3 marks)

- (b) Explain why avocado producers in WA are “set to quadruple the state’s production”. (4 marks)

- (c) With reference to a suitable diagram, explain why the new tree plantings may lead to an “oversupply issue”, and the impact this would have on the avocado market. (5 marks)

Question 26 (12 marks)

The following schedule shows the quantity demanded at different price levels for a popular energy drink.

Price	Quantity demanded	PED coefficient	Total revenue
\$5.00	25		
\$4.50	40		
\$4.00	55		
\$3.50	60		

(a) Calculate the price elasticity of demand for this product when the price changes from

i) \$5.00 to \$4.50 (1 mark)

ii) \$4.50 to \$4.00 (1 mark)

iii) \$4.00 to \$3.50 (1 mark)

(b) Calculate the level of total revenue received by the firm at each price level. (2 marks)

- (c) With reference to the data, explain the relationship between price elasticity of demand and total revenue. (3 marks)

- (d) Explain two factors that influence price elasticity of demand. (4 marks)

Question 27

(12 marks)

On the floor

The Economist
March 31, 2012

VISIT a British city centre on a Saturday night and a spectacle awaits: lurching revellers, rucked-up skirts and vomit-splashed pavements. Politicians portray this disorderly carousing as a blight on society. The proposed solution—already approved in principle in Scotland and at discussion stage in England—is to make alcohol more expensive. The British Isles have long been soaked in drink. Can a floor price sober them up?

Bingeing—drinking at least twice the recommended daily limit—is rising. Alcohol was a factor in half of all violent offences in 2009-10, according to the British Crime Survey, and in more than 1m hospital admissions, twice as many as in 2002-03. Chronic liver disease, which has been falling in France, Italy and Spain, has risen in Britain since the 1970s.

This public-health nightmare partly reflects deeply ingrained culture. Britons drink almost as regularly as Mediterraneans but binge like Scandinavians... the Institute of Alcohol Studies (IAS), a think-tank, argues cost is another factor. It reckons alcohol is 44% more affordable than it was in 1980, because of rising disposable incomes, industry consolidation and supermarkets selling drink as a loss leader.

Britain's plans are radical. On March 14th the Scottish government voted to introduce a minimum price per unit of alcohol; it will fix the level in April and hopes to enact it in 2013. On March 23rd David Cameron, the prime minister, proposed the same for England and Wales. No other country has set a floor price for alcohol.

- (a) According to the article, how much more affordable was alcohol in 2012 compared to 1980? (1 mark)

- (b) Define *price floor*. (1 mark)

Question 28

(12 marks)



(a) Explain why vaccinations are associated with positive externalities. (3 marks)

Section Three: Extended response**22% (20 Marks)**

This section contains **two (2)** questions. Answer **one (1)** question. Write your answers in the lined pages provided and number your answers clearly.

Spare pages are included at the end of this booklet. They can be used for planning your responses and/or as additional space if required to continue an answer.

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- **Continuing an answer:** If you need to use the space to continue an answer, indicate in the original answer space where the answer is continued, i.e. give the page number. Fill in the number of the question that you are continuing to answer at the top of the page.

Suggested working time: 40 minutes.

Question 29**(20 marks)**

- (a) Discuss the factors influencing demand and supply, and explain the slope of the demand and supply curves. (12 marks)
- (b) Explain how the price mechanism ensures that shortages and surpluses in free markets will only be temporary. (8 marks)
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OR

Question 30**(20 marks)**

- (a) Explain the factors influencing income elasticity of demand and cross-price elasticity of demand. (8 marks)
- (b) Discuss the role of price elasticity of demand in determining whether the government should place a sales tax on cigarettes or on orange juice. (12 marks)