



Government
of South Australia

SACE
Board of SA

South Australian
Certificate of Education

Economics 2017

Question Booklet

- **Part A** (Questions 1 to 3) 45 marks
Answer **all** questions in Part A
Write your answers in this question booklet
Allow approximately 80 minutes to answer
- **Part B** (Questions 4 to 6) 20 marks
Answer **one** question in Part B
Write your answer in the separate script book
Allow approximately 40 minutes to answer

Examination information

Materials

- Question Booklet
- 8-page script book
- SACE registration number label

Reading time

- 10 minutes
- You may make notes on scribbling paper

Writing time

- 2 hours
- Use black or blue pen

Total marks 65

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Attach your SACE registration number label here

For office use only

Supervisor check	Re-marked

SACE BOARD OF SOUTH AUSTRALIA

PART A (Questions 1 to 3)
(45 marks)

Answer **all** parts of Questions 1 to 3.

Write your answers in the spaces provided for each question. The allocation of marks is shown in brackets at the end of each part of each question.

1. Refer to the following information.

Potato prices soar

Many small-scale potato farmers have experienced poor growing conditions in October this year, which has led to the price of potatoes increasing from \$5.00 a kilogram to \$9.00 a kilogram.

The increase in the price of potatoes is affecting the market for hot chips, the most popular form of food produced from potatoes.

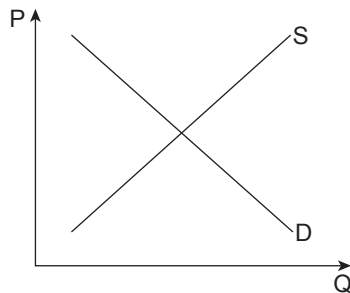
The increased price is also expected to affect markets for complementary goods such as tomato sauce, and substitute goods such as rice.

The price of potatoes is not expected to fall from the current price of \$9.00 a kilogram until next season's crop enters the market in February next year. A consumer advocate argued that if the government set a maximum price for potatoes of \$7.00 a kilogram, all consumers would be better off. This claim has been rejected by government officials.

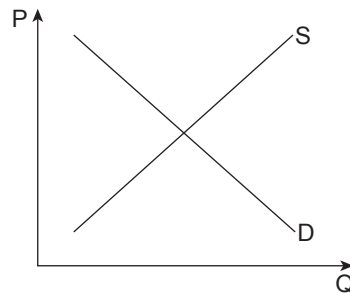
(a) Show on each diagram how the poor growing conditions for potatoes are likely to affect the market for the following goods.

Indicate the effect on price and quantity traded.

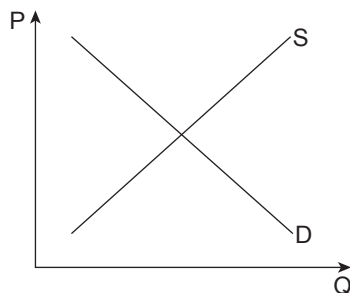
Market for potatoes



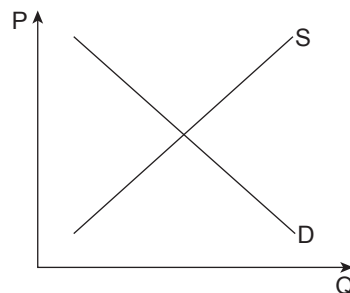
Market for hot chips



Market for tomato sauce



Market for rice



(4 marks)

(b) (i) Name the likely market structure for the potato-growing industry.

_____ (1 mark)

(ii) Justify your response to part (b)(i).

_____ (1 mark)

(c) Explain the likely change in the price elasticity of supply of potatoes before and after February next year when the new crop becomes available.

_____ (2 marks)

(d) (i) State the likely price elasticity of demand for potatoes.

_____ (1 mark)

(ii) Justify your response to part (d)(i).

_____ (1 mark)

(iii) With reference to your response to part (d)(i), explain the likely effect on total revenue of the increase in the price of potatoes from \$5.00 a kilogram to \$9.00 a kilogram.

_____ (2 marks)

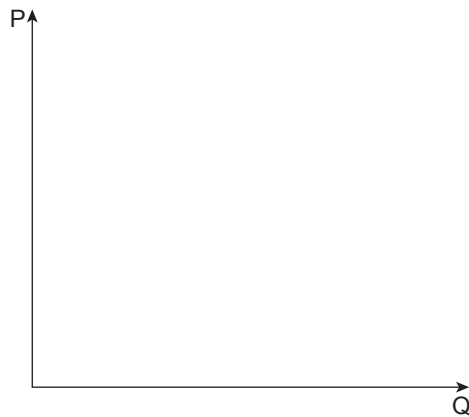
(e) Explain how using potatoes to make hot chips sold in food outlets will affect gross domestic product (GDP).

Refer to *one* method of measuring GDP in your answer.

_____ (2 marks)

- (f) Evaluate the claim by the consumer advocate that if the government set a maximum price for potatoes of \$7.00 a kilogram, all consumers would be better off.

Include a diagram to support your response.



(3 marks)

2. Refer to the following information.

Trade agreements continue to raise concerns

Country A has been involved in international trade agreements for many decades. However, as Country A is experiencing increased unemployment, there are renewed calls to reintroduce the protection of local industries in the form of tariffs and quotas on imports. The government has rejected these calls and announced that it will put more effort into negotiating bilateral trade agreements rather than multilateral trade agreements.

Those who support the reintroduction of protective measures focus on how these measures will help to achieve full employment. Opponents claim that these protective measures could have negative effects on the achievement of internal macroeconomic objectives in the long term.

- (a) Outline *two* reasons why a government might enter into bilateral trade agreements rather than multilateral trade agreements.

(i) Reason 1: _____
_____ (1 mark)

(ii) Reason 2: _____
_____ (1 mark)

- (b) Compare how quotas and tariffs could assist local industries.

_____ (2 marks)

- (c) Describe a possible effect of increased unemployment in Country A on:

(i) the economy. _____
_____ (1 mark)

(ii) the individual. _____
_____ (1 mark)

- Evaluate this claim with reference to *one* or *two* internal macroeconomic objectives.

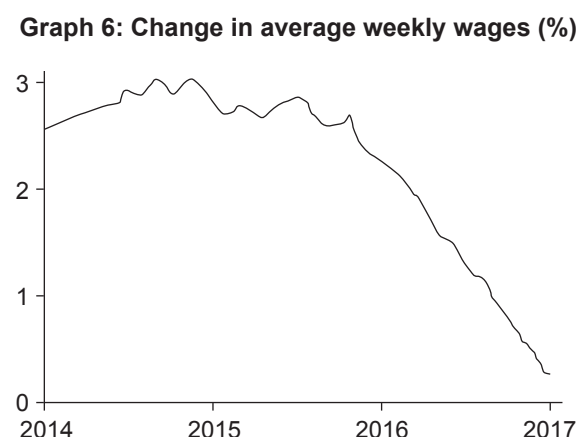
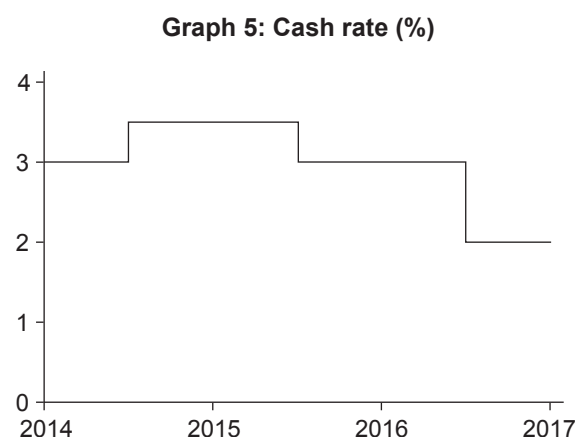
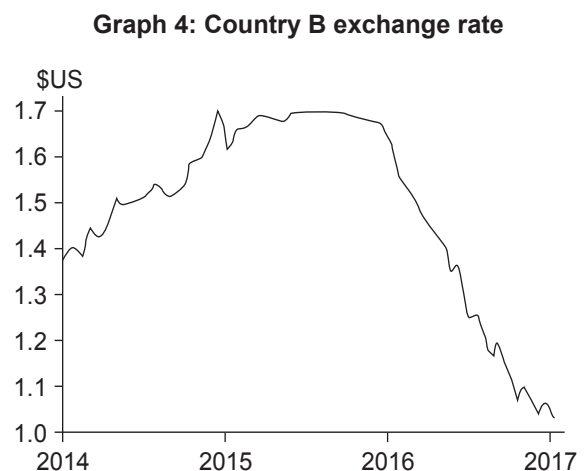
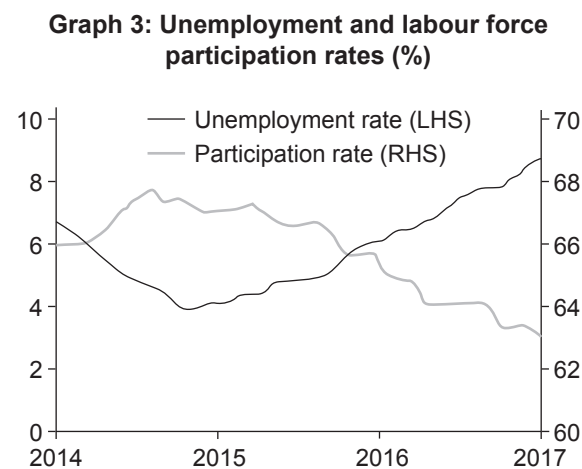
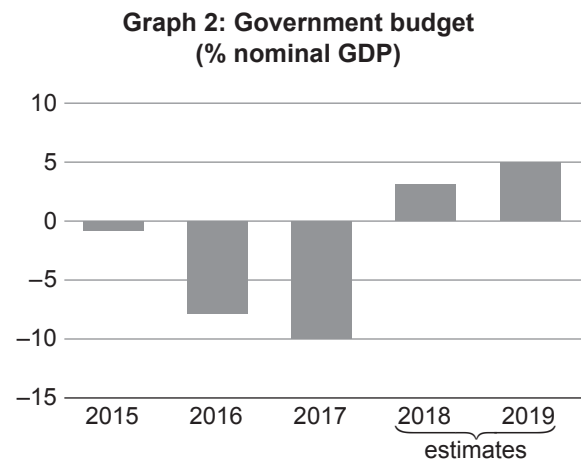
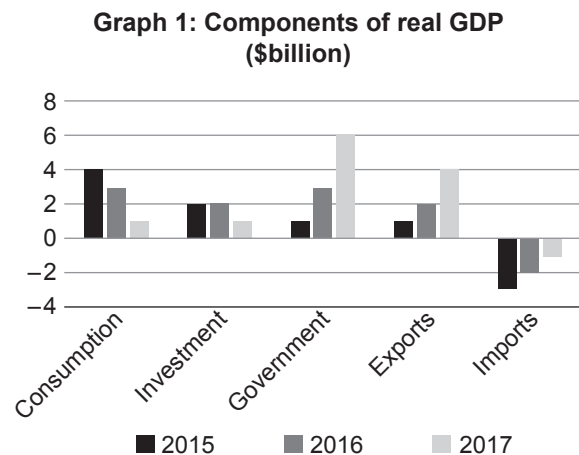
This image shows a single sheet of white paper with horizontal ruling lines. The lines are evenly spaced and run across the width of the page. There are no margins, text, or other markings on the paper.

3. Refer to the following information.

Country B is a large, developed, and open economy. The annual growth in real GDP has fallen to 2% in 2017, but inflationary pressures remain low with underlying inflation currently at 1%. Although the current account deficit has been high, recent data indicate that it is returning to acceptable levels.

Increased media concerns about the growing budget deficit have led the government to propose a change in demand management policies, using fiscal policy to return the budget to surplus in 2018–19. The government also aims to use monetary policy, in combination with the implemented fiscal policy, to achieve the macroeconomic objective of economic growth.

Graphs 1 to 6 show economic conditions in Country B in recent years.



(a) With reference to the economic conditions in Country B, state *one* factor that could have caused the change between 2015 and 2017 in:

(i) consumption. _____ (1 mark)

(ii) exports. _____ (1 mark)

(b) Discuss the impact on economic activity in Country B caused by the change in net exports between 2015 and 2017.

_____ (2 marks)

(c) (i) Describe the relationship between the unemployment rate and the participation rate shown in Graph 3.

_____ (1 mark)

(ii) Outline *one* reason that could explain your answer to part (c)(i).

_____ (1 mark)

(d) Which *one* of the following is *not* an example of the economic term 'investment'? Tick the appropriate box.

A company decides to increase stocks of finished goods.

☐

A company deposits its profits into a bank account that pays 5% interest.

☐

A company decides to purchase 10 new delivery trucks.

☐

A company decides to replace workers with robots.

☐

(1 mark)

(e) Distinguish between the economic terms 'real GDP' and 'nominal GDP'.

_____ (1 mark)

- (f) (i) What is meant by the economic term 'current account deficit'?

_____ (1 mark)

- (ii) State *one* reason why the government of Country B would be concerned about the current account deficit being too high.

_____ (1 mark)

- (g) (i) Describe what is meant by the economic term 'underlying inflation'.

_____ (1 mark)

- (ii) Outline *one* reason why the government of Country B might be concerned about the current level of inflation.

_____ (1 mark)

- (h) 'The demand management policies proposed for 2018–19 are appropriate to achieve the macroeconomic objective of economic growth in Country B.'

Evaluate this statement.

_____ (5 marks)

PART B (Questions 4 to 6)

(20 marks)

Answer **one** essay question from Questions 4 to 6.

Whenever appropriate, you should supplement your answers with suitable diagrams.

Write your answer in the separate script book provided. Write the number of the question you choose in the appropriate box on the front cover of the script book.

4. 'Each phase of the business cycle has similar causes and effects.'

Evaluate this statement with reference to examples.

(20 marks)

5. 'Demand management policies are as effective as supply management policies in helping a government to achieve stated macroeconomic objectives.'

Evaluate this statement with reference to examples.

(20 marks)

6. 'The notion of price stability and full employment suggests that both inflation and unemployment can be too high as well as too low.'

Evaluate this statement with reference to examples.

(20 marks)

