Economics
2021 Sample paper 1

Question booklet 1

- Questions 1 and 2 (35 marks)
- Answer *all* questions
- Write your answers in this question booklet
- You may write on page 8 if you need more space
- Allow approximately 65 minutes

Examination information

Materials

- Question booklet 1
- Question booklet 2
- SACE registration number label

Instructions

- Use black or blue pen

Total time: 130 minutes
Total marks: 70

The external assessment requirements of this subject are listed on page 9 of Question booklet 2.

Attach your SACE registration number label here

Government
of South Australia

SACE
BOARD
OF SOUTH
AUSTRALIA

1. The people in Country A have access to two social media corporations. Both corporations are considering whether to absorb a tax on news content or pass it on to consumers.

The matrix below shows the pay-off that each corporation expects for each strategy.

| Corporation 1 \ Corporation 2	Absorb the tax	Pass on the tax
Absorb the tax	$3m / $3m	$5m / $2m
Pass on the tax	$2m / $5m	$4m / $4bn

Explain the best outcome for these corporations. In your response refer to dominant strategies and the Nash equilibrium.

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_____ (4 marks)

2. A summary of economic conditions in Country A is shown below. A government spokesperson has stated that the government will continue to use a combination of demand-management policies and supply-management policies to achieve long-term macroeconomic objectives. The spokesperson argued that while Country A had experienced some short-run costs from supply-management policies, there will be benefits in the long run.
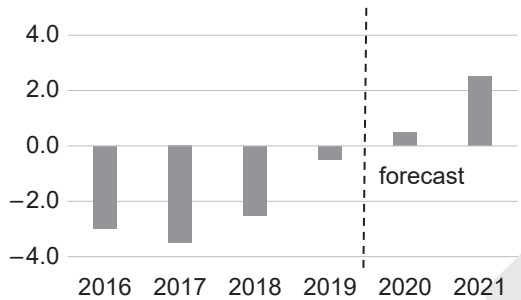
Data for Country A

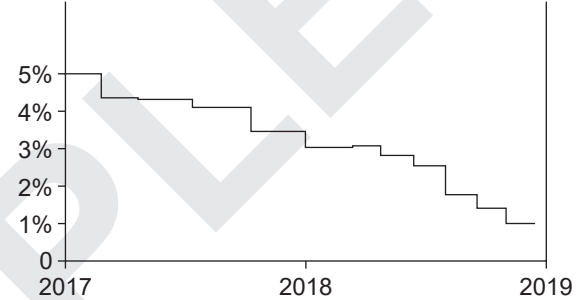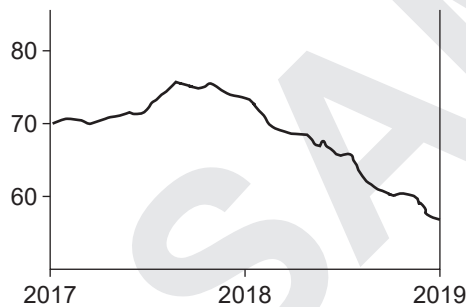**Graph 1: Real GDP and inflation (% change)**
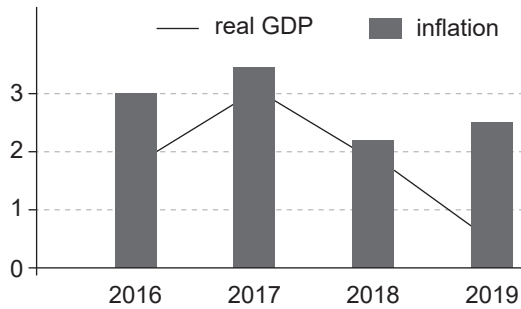
Graph 2: Unemployment rate (%)

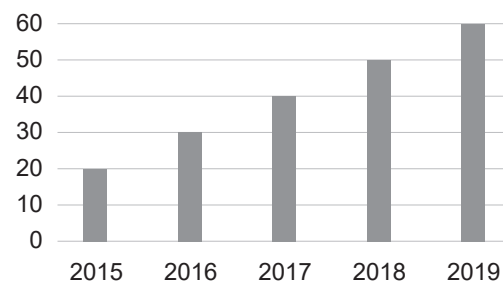**Graph 3: Government budget balance (% GDP)**

Graph 4: Cash rate target

Graph 5: Exchange rate — trade-weighted index

Graph 6: Government debt (% GDP)

(a) Explain *two* limitations of using real GDP to measure economic growth.

(i) Limitation 1: _____

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_____ (2 marks)

(ii) Limitation 2:_____

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_____ (2 marks)

(b) Select *one* lagging indicator from the data for Country A.

   (i) Explain why the indicator you selected is a lagging indicator.

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      _____ (2 marks)

   (ii) Explain how lagging indicators can help the government of Country A to better manage the economy.

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      _____ (2 marks)

(c) Using the data for Country A, identify which point on the diagram below indicates the likely phase of the business cycle of the economy of Country A in 2018. Justify your choice.

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_____ (4 marks)

(d) 'Given current economic conditions in Country A, the government of Country A should give priority to achieving full employment.'

Evaluate this statement.

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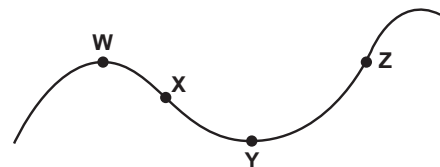
_____ (5 marks)

(e) Country A's exchange rate has changed since 2018.

Discuss the likely impact of the change in the exchange rate, shown in Graph 5, on the achievement of price stability in 2020.

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_____ (5 marks)

(f) 'Demand management policies are the most effective policy for Country A to use in order to achieve the macroeconomic objectives of full employment and price stability.'

Evaluate this statement.

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_____ (9 marks)

You may write on this page if you need more space to finish your answers to any of the questions in this question booklet. Make sure to label each answer carefully (e.g. 2(b)(ii) continued).