

Economics

Section 1

Instructions

- Answer all questions in the question and response book.
- This book will not be marked.
- Choose the best answer for Questions 1–10.
- This section has 10 questions and is worth 10 marks.
- Use a 2B pencil to fill in the A, B, C or D answer bubble completely in the question and response book.

Section 1

QUESTION 1

Which of the following would increase aggregate demand in Australia?

- (A) an increase in the household saving ratio
- (B) an increase in spending on imported motor vehicles
- (C) an increase in private business investment
- (D) an appreciation of the Australian dollar that reduces export volumes

QUESTION 2

The Reserve Bank of Australia's inflation target is to keep annual consumer price inflation

- (A) between 2 and 3 per cent.
- (B) at exactly 2.5 per cent in every quarter.
- (C) below 2 per cent.
- (D) between 1 and 3 per cent.

QUESTION 3

A budget deficit that remains when the economy is growing at its trend rate and unemployment is low is best described as

- (A) cyclical.
- (B) automatic.
- (C) neutral.
- (D) structural.

QUESTION 4

An increase in the cash rate is most likely to reduce inflation by

- (A) increasing government spending on goods and services.
- (B) raising borrowing costs, which reduces consumption and investment.
- (C) depreciating the Australian dollar, which lowers import prices.
- (D) increasing the disposable income of households with mortgages.

QUESTION 5

In one year, nominal wages rise by 3.2% and consumer prices rise by 4.0%. Over that year, real wages

- (A) rise by about 7.2%.
- (B) rise by about 0.8%.
- (C) fall by about 0.8%.
- (D) do not change.

QUESTION 6

In the short run, a fall in the unemployment rate below the non-accelerating inflation rate of unemployment (NAIRU) is most likely to result in

- (A) rising inflation.
- (B) falling inflation.
- (C) a larger negative output gap.
- (D) slower wages growth.

QUESTION 7

Which combination describes a contractionary macroeconomic policy mix?

- (A) a lower cash rate and a larger budget deficit
- (B) a lower cash rate and a smaller budget deficit
- (C) a higher cash rate and a larger budget deficit
- (D) a higher cash rate and a smaller budget deficit

QUESTION 8

Which of the following is an example of microeconomic reform?

- (A) increasing the cash rate to reduce inflation
- (B) removing regulations that restrict competition in an industry
- (C) increasing unemployment benefits during a downturn
- (D) reducing the size of the budget deficit

QUESTION 9

A sharp rise in world oil prices is most likely to cause

- (A) aggregate demand to shift right, resulting in demand-pull inflation.
- (B) aggregate demand to shift left, resulting in a lower price level and higher output.
- (C) aggregate supply to shift right, resulting in a lower price level.
- (D) aggregate supply to shift left, resulting in cost-push inflation.

QUESTION 10

Compared with discretionary fiscal policy, an advantage of monetary policy is that it

- (A) can be changed quickly, because decisions are made at each Monetary Policy Board meeting.
- (B) can be targeted at particular regions or industries.
- (C) affects spending immediately, with no time lag.
- (D) directly changes the level of government spending.

END OF SECTION 1

