



South Australian
Certificate of Education

Economics 2020

Question booklet

Part A (Questions 1 and 2) 45 marks

- Answer **both** questions in Part A
- Write your answers in this question booklet
- Allow approximately 80 minutes

Part B (Questions 3 to 5) 20 marks

- Answer **one** question in Part B
- Write your answer in the separate script book
- Allow approximately 50 minutes

Examination information

Materials

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

Instructions

- Use black or blue pen

Total time: 130 minutes

Total marks: 65

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Attach your SACE registration number label here



Government
of South Australia

PART A (Questions 1 and 2)
(45 marks)

Answer **all** questions in Part A.

1. Refer to the following information about the meat-production industry in Country X:

The meat-production industry in Country X has experienced significant changes since the 1960s when beef was the most frequently purchased meat. The consumption of all types of meat has increased since the 1960s; however, chicken has now replaced beef as the most frequently purchased meat.

After adjusting for inflation, the average price of beef has changed from \$22.00 per kilogram in 1960 to \$30.80 per kilogram in 2020, making beef a luxury item for many people. The average price of chicken has changed from \$12.00 per kilogram in 1960 to \$5.60 per kilogram in 2020, making it one of the cheapest meats.

The production of beef takes longer and requires more land than the production of chicken. Since the 1960s, the production of chicken has become more intensive, more automated, and has had significantly larger gains in efficiency than the production of beef.

- (a) Describe how meat production in Country X illustrates the economic question of 'What to produce?'.

(2 marks)

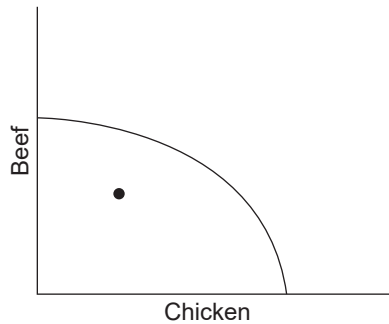
- (b) Compare the likely price elasticity of demand for beef with the likely price elasticity of demand for chicken in 2020. Justify your answer.

(2 marks)

- (c) Compare the likely price elasticity of supply of beef with the likely price elasticity of supply of chicken in 2020. Justify your answer.

(2 marks)

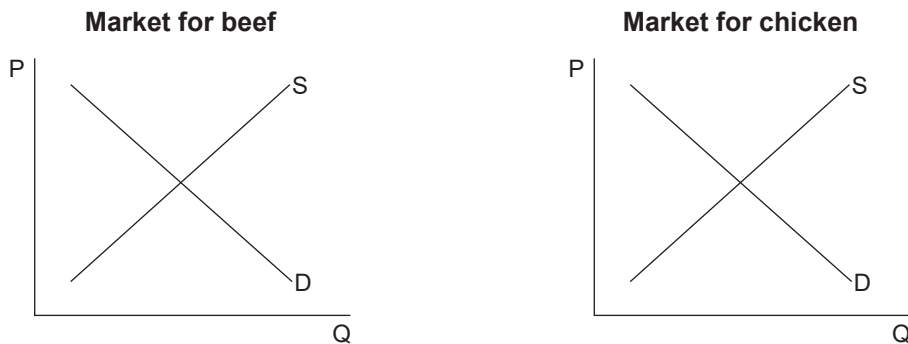
- (d) The following diagram illustrates the meat production possibilities for, and the realised production of, beef and chicken in 1960.



On this diagram, illustrate the meat production possibilities for beef and chicken in 2020.

(2 marks)

- (e) Explain how changes in market conditions since 1960 have affected the price of beef and chicken. Complete the diagrams below to support your answer.



(4 marks)

Refer to the following additional information about the chicken-meat production industry in Country X:

The chicken-meat production industry in Country X is dominated by two large producers who supply 70% of the chicken. A few medium-sized companies supply another 22%, and the remainder is supplied by small producers.

Producers claim that the market structure of the chicken-meat production industry meets the needs of both consumers and producers.

- (f) (i) Identify the likely market structure of the chicken-meat production industry in Country X. Justify your answer.

(2 marks)

- (ii) Explain *one* type of market failure that could be associated with the chicken-meat production industry.

(2 marks)

- (iii) Evaluate the claim by producers that ‘the market structure of the chicken-meat production industry meets the needs of both consumers and producers’.

(4 marks)

2. (a) (i) Define the macroeconomic objective of 'full employment of labour'.

_____ (1 mark)

- (ii) Explain why there would be some unemployment if the macroeconomic objective of full employment has been achieved.

_____ (2 marks)

- (b) (i) Define the term 'labour force participation rate'.

_____ (1 mark)

- (ii) Explain how changes in the labour force participation rate could affect the unemployment rate.

_____ (2 marks)

Question 2 continues on page 6.

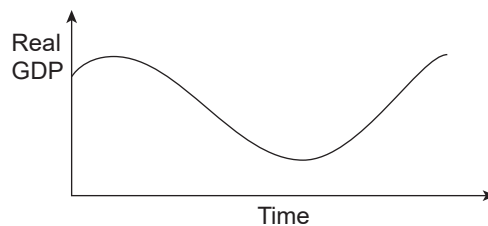
Refer to the following information:

The table below shows some economic indicators for Country P.

	2019	2020	2021 forecast
Real GDP growth (%)	2.25	2.00	3.25
Unemployment rate (%)	4.9	4.7	5.0
Labour force participation rate (%)	65	63	66
Consumer price index (%)	1.9	1.6	2.1
Nominal wage growth (%)	1.0	1.2	2.5
Government budget balance (% of GDP)	−1.5	−3.0	−4.5
Cash rate (%)	1.5	1.0	1.0
Current account balance (% of GDP)	−0.5	3.0	4.0

Early in 2020, a spokesperson for the government of Country P stated that the government was committed to stimulating the economy, despite Country P recently benefiting from high commodity prices and strong demand for its exports. They announced tax cuts for low- and middle-income earners and an increase in welfare payments, effective from 1 July 2020. These measures were intended to boost consumer and business confidence and increase the labour force participation rate.

- (c) On the diagram below, indicate the likely phase of the business cycle of Country P in 2021. Justify your answer.



 _____ (3 marks)

- (d) (i) State the difference between 'nominal wages' and 'real wages'.

 _____ (1 mark)

- (ii) Briefly explain the change in real wages in Country P from 2020 to 2021.

 _____ (2 marks)

- (e) With reference to the economic conditions in Country P, explain *one* possible reason for the change in the current account balance from 2019 to 2020.

(2 marks)

- (f) With reference to *two* components of the circular-flow model, discuss the possible impacts of the tax cuts and increase in welfare payments on economic activity in Country P.

(4 marks)

- (g) Explain *one* problem of economic management that the government of Country P may experience when implementing demand management policies.

(2 marks)

Question 2 continues on page 8.

- (h) The government of Country P intends to leave the cash rate unchanged in 2021. With reference to the economic conditions in Country P, evaluate this decision.

[illegible]

PART B (Questions 3 to 5)
(20 marks)

Answer **one** essay question in Part B.

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.

3. 'Participation in the global economy has both positive and negative effects on the domestic economy.'

Evaluate this statement with reference to examples.

(20 marks)

4. 'The aggregate demand – aggregate supply model can explain the cause(s) of inflation and identify policy solutions.'

Evaluate this statement with reference to examples.

(20 marks)

5. 'A government needs to use a combination of demand management and supply management policies to manage an economy effectively.'

Evaluate this statement with reference to examples.

(20 marks)