

The Market Economy

Workbook

Year 11 Economics

Eighth Edition

Edited by:

Tim Dixon

John O'Mahony

Table of Contents

TOPIC 1: Introduction to Economics

Chapter 1:	What Is Economics About?	3
Chapter 2:	How Economies Operate	14
Chapter 3:	How Economies Differ.	24

TOPIC 2: Consumers and Business

Chapter 4:	Consumers in the Market Economy	37
Chapter 5:	Business in the Market Economy	46

TOPIC 3: Markets

Chapter 6:	Demand	59
Chapter 7:	Supply	70
Chapter 8:	Market Equilibrium.	80

TOPIC 4: Labour Markets

Chapter 9:	Labour Demand and Supply	95
Chapter 10:	Labour Market Outcomes	105
Chapter 11:	The Changing Australian Labour Market.	116

TOPIC 5: Financial Markets

Chapter 12:	Types of Financial Markets	131
Chapter 13:	The Money Market.	144

TOPIC 6: Government and the Market Economy

Chapter 14:	The Limits of Markets	159
Chapter 15:	The Role of Government in Australia	169
Chapter 16:	Government in Action	180

Preliminary Practice Exam	191
--	------------

About this book

This workbook aims to help you develop your skills of analysis and understanding as you move through the New South Wales Year 11 Economics course. It is designed as a companion to *The Market Economy*, although it can be used with any textbooks based on the current syllabus. You can use it as you go through the Year 11 course, or just use it for practice questions when you are preparing for tests and exams.

The workbook has 16 chapters that align with the 16 chapters of *The Market Economy*. It is focused on HSC-style multiple choice, short answer and extended response questions that test both your knowledge and your skills, such as ability to interpret economic graphs and data.

- Each chapter of the workbook contains 15 **multiple choice questions** designed to test key content. These also function as a practice set for the type of multiple choice questions asked in classroom tests and exams. The questions are graded to provide a selection of easy and difficult multiple choice questions.
- There are **short answer questions** for each chapter worth 10 marks each. The short answer questions are designed to test the main syllabus content dot points and are a good way to ensure that you understand each topic in the course. You may also wish to revisit some of the short answer questions later when preparing for the examinations.
- Each chapter has a number of suggested **extended response topics** which are designed to test knowledge across syllabus topics. The questions are graded, beginning with easier descriptive questions and moving to the more difficult analytical questions. These extended response questions are aimed at testing the parts of the syllabus that require you to explore issues in more detail.
- Each chapter has a variety of **extension activities**. Some are designed to help make you comfortable with some of the more difficult calculations and theory aspects of the course by practicing on commonly asked questions. Other skills activities also ask you to draw out the linkages between key topics – a key economic skill.
- The suggested **class activities** can be used in class, but of course you may want to tackle these activities independently. The **independent research tasks** ask you to go beyond your textbook to gain a deeper understanding of key issues and policies in the domestic and global economies.
- Finally, the workbook contains a **practice exam** to help you prepare for your examinations.

Our thanks to the team of economic researchers, who contributed to this new edition of the workbook, and to the team at Pearson.

And most of all, thanks to the teachers and students whose support has bought this workbook to its eighth edition – we hope it is a useful resource that makes your work just a little bit easier.

Tim Dixon
John O'Mahony

Answers to this workbook

This year we have added **enhanced answers** to the workbook answers, including worked solutions for answers that require calculations and additional explanations for answers that require you to demonstrate a deeper understanding of key concepts and knowledge. These will allow you to not only confirm whether you arrived at the right or wrong answer, but to understand why.

You can download the answers by following these simple steps:

If you have *The Market Economy 2020 Edition* eBook:

After activating your code, you can find the workbook answers by clicking on the 'Explore resources' tab in your eBook.

Alternatively, if you don't have an eBook:

1. Go to: www.pearsonplaces.com.au
2. Login or sign-up (free)
3. Scroll down and click on 'Check out our library of free resources' and then click on 'Explore now'
4. Search for 'The Market Economy'
5. Click on 'Workbook answers' from the list.

2

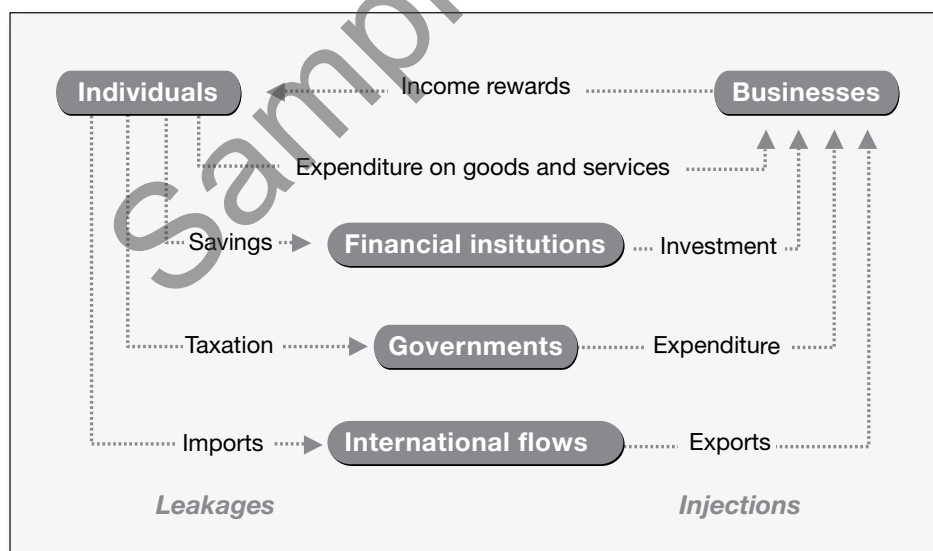
How Economies Operate

Multiple Choice

Select the alternative A, B, C or D that best answers the question.
Write your answer in the box provided.

- 1** Which of the following are injections to the circular flow of income?
- A Investment, taxation, exports
 - B Investment, government spending and imports
 - C Savings, government spending and exports
 - D Investment, government spending and exports
- 2** Which of the following best describes the impacts of lower investment levels in the economy?
- A Higher production of goods and services in the long run, due to opportunity cost of choosing investment over consumption
 - B Decreased production of capital goods, which results in less production of final goods and services over time
 - C Decreased production of capital goods, but greater resources in the economy
 - D Higher incomes received, due to increased household spending instead of capital goods
- 3** What are the rewards for the factors of production?
- A Rent for natural resources, wages for labour, profit for capital, interest for enterprise
 - B Profit for natural resources, wages for labour, rent for capital, interest for enterprise
 - C Rent for natural resources, wages for labour, interest for capital, profit for enterprise
 - D Rent for natural resources, interest for labour, profit for capital, wages for enterprise
- 4** In a market economy, what is the most important factor in determining how scarce resources are allocated?
- A Consumer spending patterns
 - B The level of innovation in the economy
 - C Entrepreneurial skill
 - D The supply of labour in the economy

- 5 Which of the following best describes the effect of a recession on a government's taxation revenue and social security payments?
- A Taxation revenue increases and social security payments decrease
- B Taxation revenue increases and social security payments increase
- C Taxation revenue decreases and social security payments increase ☐
- D Taxation revenue decreases and social security payments decrease
- 6 Which of the following is an advantage of a market economy's method of income distribution?
- A It provides an economic incentive for people to work hard and be innovative
- B It rewards all workers with fair and equal income
- C It results in no difference to income levels across various sectors of the economy ☐
- D It provides no income to those who are unable to contribute to the production process
- 7 What is the equilibrium condition for an economy?
- A Savings, taxation, and exports are equal to investment, government expenditure, and imports
- B Government expenditure is equal to the amount collected in tax revenue
- C Income is either spent on consumption or saved in a bank account
- D Savings, taxation and imports are equal to investment, government expenditure and exports ☐
- 8 Which of the following best describes the relationship between individuals and governments in the circular flow of income?



- A Individuals spend welfare payments received from the government on imports
- B Individuals pay taxation to the government, which injects spending into the economy
- C Individuals supply labour and enterprise to businesses and receive income rewards ☐
- D Individuals put savings into financial institutions, which lend money to the government

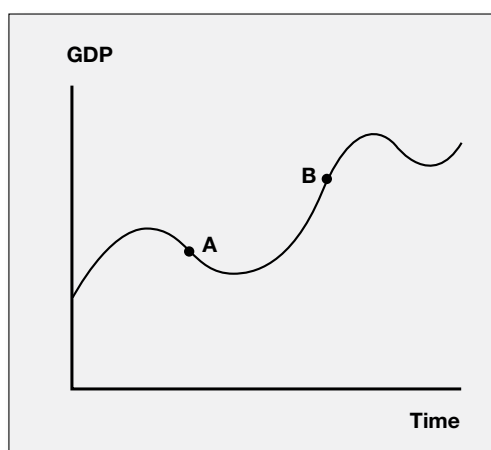
- 9** Question 9 relates to the following information about an economy.

	Year 1	Year 2
Taxation revenue	\$400bn	\$412bn
Government expenditure	\$400bn	\$406bn

Which of the following will most likely occur to economic activity in year 2?

- A** There will be an upturn in economic activity because expenditure has grown more rapidly than taxation revenue
- B** There will be a downturn in economic activity because compared with year 1, the government is spending too much money
- C** There will be reduced economic activity because tax revenue has grown more rapidly than government expenditure ☐
- D** There will be no change in economic activity because leakages and injections are equal ☐
- 10** How can the government decrease economic activity?
- A** Increase leakages through higher expenditure
- B** Increase leakages through higher tax
- C** Increase injections through lower tax ☐
- D** Increase injections through higher expenditure
- 11** How might a government intervene in an economy to reduce inequitable market outcomes?
- A** Increase the GST from 10% to 15%
- B** Provide tax cuts for large businesses earning over \$20 million in revenues per year
- C** Increase the assets test threshold for eligibility for social security payments ☐
- D** Increase means-tested social security payments

Questions 12 and 13 relate to this diagram for a hypothetical economy.



- 12** What are the most likely consequences for the economy at point A in the business cycle on the diagram?
- A Falling unemployment and rising income levels
 - B Increasing unemployment and greater reliance on social security payments
 - C Falling quality of life and increasing production of goods and services
 - D Decreasing government intervention to promote economic growth
- 13** Which of the following is most likely to occur at point B on the diagram?
- A Increasing employment and increasing production of goods and services
 - B Falling income levels and falling unemployment
 - C Increased consumption and investment plans postponed
 - D Falling production and rising unemployment
- 14** Which of the following is best illustrated by the economic cycle?
- A Changes in the value of the factors of production
 - B How resources are allocated in the economy over time
 - C Fluctuations in economic growth over time
 - D Fluctuations in taxation rates over time
- 15** What best describes the role of financial institutions in the economy according to the simplified circular flow of income?
- A Banks and credit unions seek to maximise economic growth
 - B Financial institutions encourage consumers to spend rather than save
 - C Financial institutions are intermediaries between business that save and consumers looking for capital
 - D Financial institutions are intermediaries between consumers that save and businesses looking to invest

Short Answer Questions

Write your answer in the space provided.

Question 1

(10 marks)

“A pick-up in growth in household disposable income, continued investment in infrastructure and a renewed expansion in the resources sector were expected to contribute to growth in output over coming years. The unemployment rate was expected to decline a little towards the end of the forecast period...”

– Minutes of the Monetary Policy Meeting of the Reserve Bank Board, June 2019.

(a) Define *equilibrium*.

(1 mark)

.....

.....

.....

.....

(b) Identify two factors that affect the level of wages received by workers.

(2 marks)

.....

.....

.....

.....

(c) With reference to the above quote, outline how increased incomes can increase economic activity.

(3 marks)

.....

.....

.....

.....

.....

.....

- (d) Explain the role of taxation and government expenditure in the circular flow of income. (4 marks)

.....

.....

.....

.....

.....

.....

Question 2

(10 marks)

The following table shows data for a hypothetical economy.

Year	Saving	Investment	Taxation	Government spending	Imports	Exports
2020	30	35	30	60	55	80
2021	40	30	60	40	30	40
2022	50	55	50	40	50	55
2023	40	35	30	–	50	60

- (a) Identify which years the above economy is in equilibrium. (1 mark)

.....

.....

- (b) Calculate the level of government spending if the economy is in equilibrium in 2023. (1 mark)

.....

.....

- (c) Outline the TWO ways that government expenditure is an injection into the circular flow of income. (2 marks)

.....

.....

.....

.....

- (d)** Describe how a high level of savings in an economy might reduce economic activity. (2 marks)

.....

.....

.....

.....

- (e)** Explain why an economy with total leakages greater than total injections will shift towards equilibrium. (4 marks)

.....

.....

.....

.....

.....

.....

.....

Question 3 (10 marks)

- (a)** Define the business cycle. (1 mark)

.....

.....

- (b)** Outline how the business cycle is related to living standards in an economy. (2 marks)

.....

.....

.....

.....

- (c) Outline the role of government in influencing the distribution of resources in the economy. (3 marks)

.....

.....

.....

.....

.....

.....

- (d) Explain the effects of an economic recession on the circular flow of income. (4 marks)

.....

.....

.....

.....

.....

.....

.....

.....

er extended response

- 1 Describe the role that each factor of production plays in the economy, and explain how the problem of scarcity is addressed in a market economy.
- 2 Analyse how changes in the circular flow of income lead to fluctuations in the business cycle.
- 3 Discuss the role of the government in influencing the business cycle and addressing unequal distribution of resources.

sr skillsrevision

Economic Concepts and Relationships

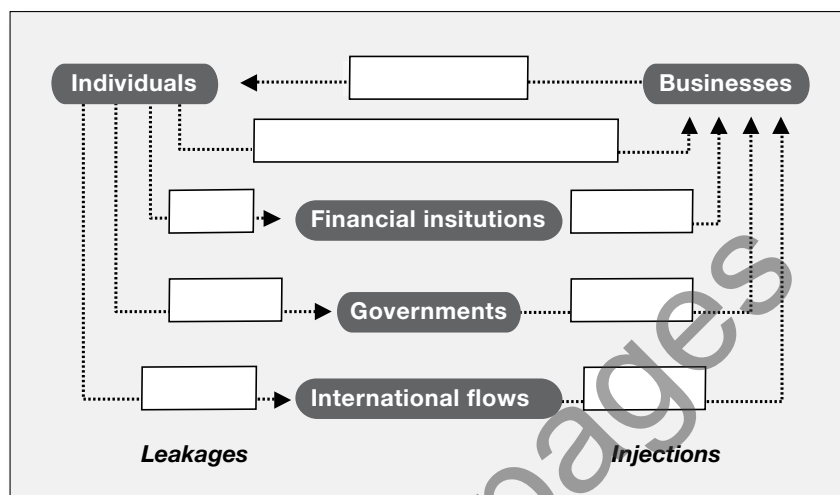
In this skills revision exercise, you will be presented with an economic activity/scenario taking place in a five-sector circular flow of income model. The exercise involves two steps. Firstly, identify whether the presented activity is a leakage or injection, and what is the effect of the activity on total leakages or total injections. Secondly, consider whether as a result of the scenario, economic activity expands or contracts. The first activity has been completed as a guide.

Activity / Scenario	What is the effect of the activity on total leakages or total injections?	Does economic activity expand or contract?
The Australian dollar appreciates, causing export volumes to fall	Total injections decrease	Contracts
The government increases income taxes to help offset a budget deficit		
The RBA cuts interest rates to encourage businesses to invest		
As a result of the closure of Australia's motor vehicle production industry, import volumes rise		
Tax reforms result in a fall in tax revenue		
The government introduces a \$10bn health and education improvement package		

sr skillsrevision

Use your knowledge of the circular flow of income to answer the following questions.

Fill in the missing components of the circular flow of income.



Identify the impact of each of the following scenarios on leakages and injections and the likely impact on economic activity.

1 China, Australia's largest trading partner, experiences an economic downturn.

Leakages:

Injections:

Impact on economic activity:

.....

.....

2 Investment in port and rail facilities improves Australia's export capacity.

Leakages:

Injections:

Impact on economic activity:

.....

.....

3 The government increases mandatory superannuation contributions for all workers.

Leakages:

Injections:

Impact on economic activity:

.....

.....

Calculate the missing elements of the following table. Assume that the economy is in equilibrium in each year.

Year	Output	Income	Consumption	Saving
1	500	500	300	200
2	800		550	
3		900		100
4			480	120
5		500	320	