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The Market Economy

WORKBOOK



Year 11 Economics

NINTH EDITION

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What Is Economics About?

1

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 is a major aim for businesses?

- A To maximise profit
- B To minimise tax payments
- C To buy capital goods
- D To maximise spending in the economy

2 Question 2 relates to the information in the table below.

Production possibility schedule				
Water bubblers	90	60	30	0
Recycling bins	0	60	120	180

What is the opportunity cost of producing one water bubbler?

- A 6 recycling bins
- B 3 recycling bins
- C 2 recycling bins
- D $\frac{1}{2}$ a recycling bin

3 What is the opportunity cost of producing one recycling bin?

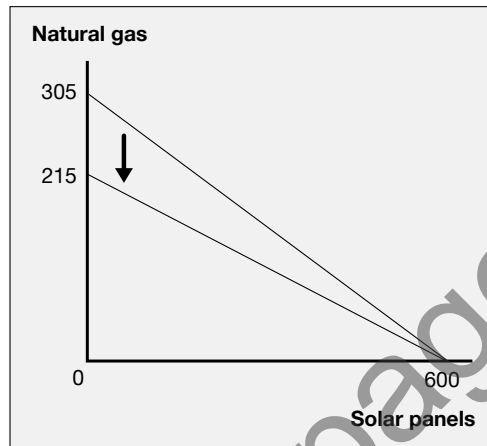
- A 6 water bubblers
- B 3 water bubblers
- C 2 water bubblers
- D $\frac{1}{2}$ a water bubbler

4 Which of the following best describes individual wants?

- A The economic choices made by individuals are strictly defined by the goods and services available in the economy
- B Individuals will only ever want what costs them the least
- C The desires of each individual are affected by their tastes and income level
- D Once an individual satisfies a desire for a material good, they are completely satisfied

- 5 Assume that an economy only produces wool and wheat. A new insecticide is developed which reduces the volume of wheat lost each season to pests. What happens to the country's production possibility frontier?
- A The production possibility frontier shifts inwards
 - B The opportunity cost per unit of wheat decreases
 - C The opportunity cost per unit of wheat increases
 - D The production possibility frontier becomes curved

- 6 What could have caused a movement in the production possibility frontier below?



- A Government subsidies for solar panels
- B Reduced unemployment amongst natural gas engineers
- C The release of a report on the benefits of natural gas
- D Tighter government regulation of natural gas extraction

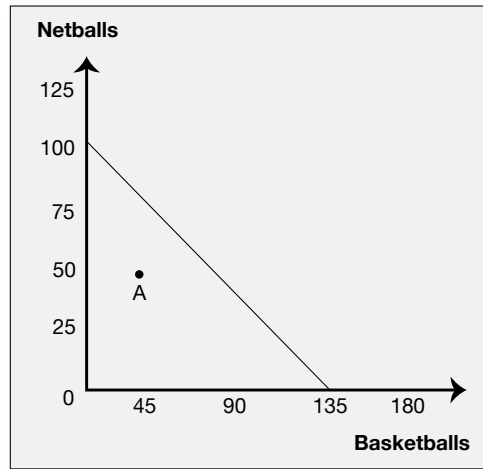
- 7 Question 7 relates to the information in the table below.

Production possibility schedule					
Pens	100	75	50	25	0
Pencils	0	5	10	15	20

Which of the following statements is correct?

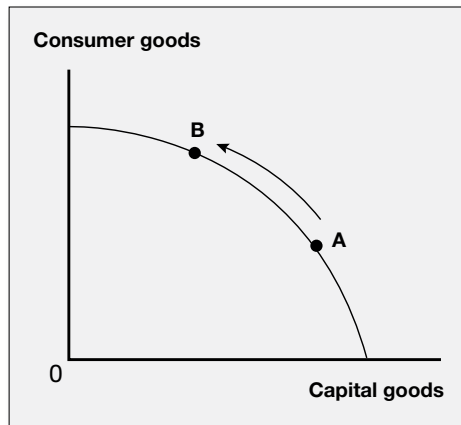
- A At this point in time, it is not possible for this economy to produce 25 pens and 10 pencils
- B The most efficient combination of goods for this economy to produce is 50 pens and 10 pencils
- C The opportunity cost of 1 pencil is 5 pens
- D As the number of pencils produced increases, the opportunity cost of pens decreases

- 8 The following diagram is for a hypothetical economy. Assuming the production level of the economy is at point A, which of the following is most likely to be true for that economy?



- A It is not possible to increase production of both netballs and basketballs
- B Netball production is efficient but basketball production is inefficient
- C There are resources not being utilised within the economy
- D The economy is operating at full capacity
- 9 Which of the following best illustrates the economic principle of opportunity cost?
- A A school builds new classrooms but does not have any students
- B The money paid for a good or service
- C A government allocates its resources to constructing hospitals rather than building bridges
- D A teenager purchases a new smartphone for \$800
- 10 Which of the following is an example of increased government intervention in an economy?
- A Reducing the company tax rate for small businesses
- B Introducing a new emissions trading scheme to reduce greenhouse gases
- C Lowering the tax rebate for private health insurance from 15 per cent to 7.5 per cent
- D Removing laws regarding foreign direct investment

Use the diagram below to answer questions 11, 12 and 13.



11 What is happening in the economy shown in the diagram as it moves from point A to point B?

- A Increased production of capital goods, reduced production of consumer goods
- B Increased production of consumer goods, reduced production of capital goods
- C Reduced production of both consumer goods and capital goods
- D Increased production of both consumer goods and capital goods

12 What is the most likely consequence of the movement from point A to point B shown in the diagram?

- A Inward shift of production possibility frontier in the long term
- B Inward shift of production possibility frontier in the short term
- C Outward shift of production possibility frontier in the long term
- D Rising unemployment in the short term

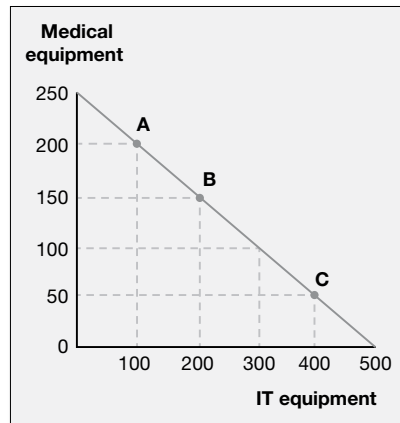
13 What is a possible cause of the movement from point A to point B shown in the diagram?

- A Reduced demand for consumer goods
- B Reduced demand for capital goods in the economy
- C Reduced immigration into the economy
- D Increased taxes on consumer goods

14 Which of the following statements is correct?

- A Local swimming pools are an example of a collective want and goggles are an example of an individual want
- B Mobile phones and laptops are complementary wants
- C Collective wants are limited, while individual wants are unlimited
- D Needs and wants are limited by income

15 Question 15 is based on the following graph.



Consider the production possibility frontier (PPF) for an economy that can produce specialised medical equipment and information technology (IT) equipment. Which of the following statements best explains what is happening in the economy shown?

- A The opportunity cost of producing IT equipment is constant
- B The opportunity cost of producing medical equipment is greater at B than C
- C The opportunity cost of producing medical equipment is lower at A than B
- D The economy is more efficient at producing IT equipment at A than C

Short Answer Questions

Write your answer in the space provided.

Question 1

(10 marks)

“To increase household disposable income and support the economic recovery, the Government will retain the low and middle income tax offset (LMITO) in 2021–22 to provide \$7.8 billion in targeted support to around 10.2 million low- and middle-income earners. The LMITO provides a further tax cut of up to \$1080 for individuals or \$2160 for dual income couples, with the maximum benefit going to individuals with taxable incomes between \$48,000 and \$90,000. Treasury estimates that extending the LMITO will boost GDP by around \$4.5 billion in 2022–23 and will create an additional 20,000 jobs by the end of 2022–23.”

– Budget 2021–22, Budget Paper No.1 Strategy and Outlook, 11 May 2021.

(a) Outline the difference between individual wants and collective wants.

(2 marks)

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- (b)** With reference to the quote above, explain how a tax cut can help individuals satisfy their wants. (2 marks)

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- (c)** Using an example, identify an opportunity cost faced by the Government by retaining the low and middle income tax offset (LMITO). (2 marks)

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- (d)** Define the economic problem and discuss how this relates to individual and collective wants. (4 marks)

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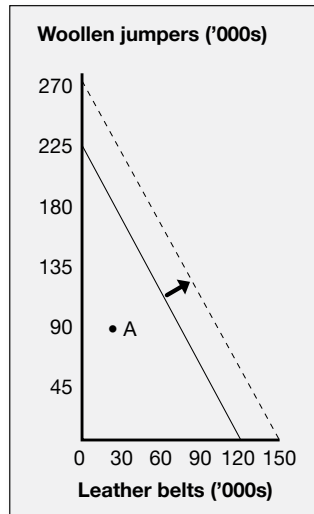
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Sample pages

Question 2

(10 marks)



- (a) Calculate the opportunity cost of producing one leather belt. (1 mark)

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- (b) Describe the consequences of producing leather belts and woollen jumpers at point A in the diagram. (2 marks)

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- (c) Explain how an economy will decide what combination of jumpers and belts to produce. (2 marks)

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- (d) Outline how the outward shift in the production possibility frontier, as illustrated in the diagram, could have occurred. (2 marks)

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- (e) Outline what would happen to the production possibility frontier if the supply of wool fell sharply, and how this would affect the opportunity cost of jumper production. (3 marks)

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Question 3 (10 marks)

Annabelle must decide whether to spend her allowance on hiking gear or on drawing equipment.

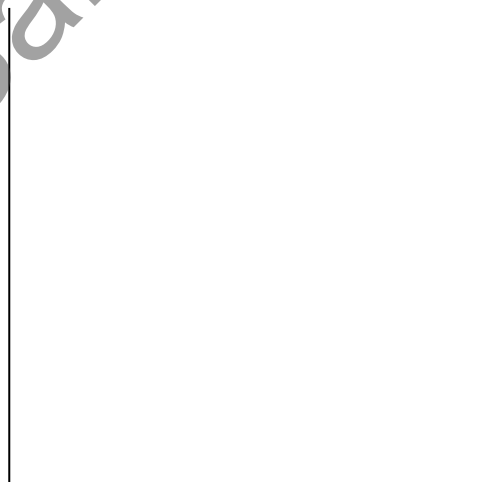
Annabelle's spending possibilities						
Hiking gear	20	16	12	8	4	0
Drawing equipment	0	100	200	300	400	500

- (a) Calculate the opportunity cost of Annabelle deciding to purchase one item of hiking gear. (1 mark)

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- (b) Using the data above, construct a diagram to represent Annabelle's choices. Place drawing equipment on the horizontal axis and hiking gear on the vertical axis. (2 marks)



- (c) A new technological advancement has made it cheaper to produce hiking gear and the price comes down. Outline what impact this would have on the diagram. (2 marks)

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- (d) Annabelle cannot decide whether she should continue spending her allowance or begin to save money. Discuss the economic factors an individual must consider as well as the potential economic benefits of saving their allowance. (3 marks)

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- (e) Briefly discuss the effects of a shift from producing consumer goods to capital goods. (2 marks)

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Sample pages

er extended response

- 1 Account for the four key economic questions and discuss how the choices of individuals, businesses and governments can influence the issues that arise from these questions.
- 2 Evaluate the influence of governments over economic choices. Discuss the advantages and disadvantages of long-term savings and financial planning for future needs.
- 3 Outline how the production possibility frontier can be used to demonstrate opportunity cost, and examine the effects of unemployment and technological change on production in the economy.

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Economic Terms

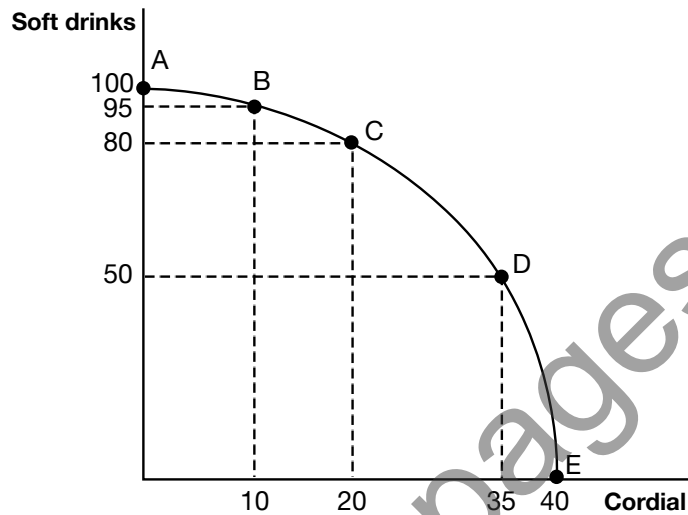
Match the terms below to the correct definition, and where possible, provide two examples of each term. If you want to make this activity more difficult, try to write in the term without looking at the list below.

- Capital goods
 Individual wants
 Economic problem
 Government subsidy
 Needs
 Opportunity cost
 Recurrent wants
 Tax
 Unemployment
 Utility

Economic term	Definition	Examples
	Goods and services required to satisfy the basic necessities of life	• •
	A situation where resources in the economy are not being used to their full potential	• •
	Wants that are the desires of each person, usually dependent on personal tastes and preferences	• •
	How a society is able to satisfy its unlimited wants with a limited quantity of resources	• •
	Wants which must be satisfied over and over again	• •
	A benefit given by the government to groups or individuals, usually in the form of a cash payment or tax reduction	• •
	A want which is forgone in order to satisfy another want	• •
	A compulsory payment of money that the government imposes on firms or individuals	• •
	The satisfaction or pleasure an individual receives from consuming goods and services	• •
	Items not produced for immediate consumption, but used for the production of other goods	• •

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Calculate the opportunity cost of moving between points on the following production possibility frontier.



1 Moving from point A to point B

2 Moving from point C to point D

3 Moving from point B to point E

4 Moving from point E to point A