Captivate
EDUCATION

Economics

Question and Answer Book

Practice examination 1 – 2027

Student name _____

Teacher _____

- Reading time is 15 minutes
- Writing time is 2 hours

Approved materials

- One scientific calculator

Materials supplied

- Question and Answer Book
- Multiple-Choice Answer Sheet

Instructions

- Follow the instructions on your Multiple-Choice Answer Sheet.
- At the end of the examination, place your Multiple-Choice Answer Sheet inside the front cover of this book.
- Use the additional space at the end of this book if you need extra space to complete an answer.

Students are not permitted to bring mobile phones and/or any unauthorised electronic devices into the examination room.

Contents

Section A (15 questions, 15 marks)

Section B (7 questions, 65 marks)

Practice material in the layout of the 2025 VCAA paper – generated 2027. Not a VCAA examination.

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Section A – Multiple-choice questions

Instructions

- Answer **all** questions in pencil on your Multiple-Choice Answer Sheet.
- Choose the response that is correct or that best answers the question.
- A correct answer scores 1; an incorrect answer scores 0.
- Marks will not be deducted for incorrect answers.
- No marks will be given if more than one answer is completed for any question.

Question 1

Intertemporal efficiency is achieved when

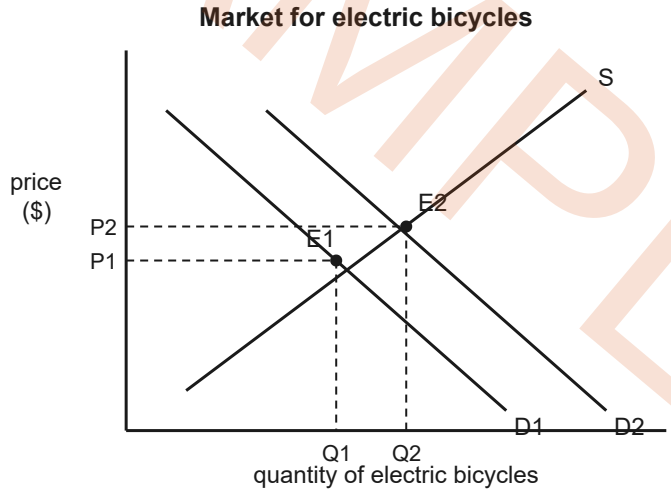
A. resources are allocated to the goods and services that maximise society's welfare.

B. there is an optimal balance between the use of resources for current consumption and their use for saving and investment for the future.

C. each unit of output is produced using the fewest possible resources.

D. producers innovate quickly in response to changing consumer preferences.

In the diagram below, the demand curve for electric bicycles shifts from D1 to D2.



Question 2

Which one of the following is the most likely cause of the shift shown?

A. an increase in the price of petrol-powered scooters

B. a fall in the price of electric bicycles

C. an increase in the cost of lithium batteries

D. a fall in consumer incomes

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The table below shows two points on the production possibility frontier of a hypothetical economy that produces only cars and trucks.

Point	Cars (000s)	Trucks (000s)
X	40	60
Y	50	45

Question 3

The opportunity cost of each additional car produced when the economy moves from point X to point Y is

A. 15 trucks.
B. 10 trucks.
C. 1.5 trucks.
D. 0.67 trucks.

Question 4

The price elasticity of demand for a product is likely to be lower

A. the larger the number of close substitutes available.
B. the longer the time period consumers have to adjust.
C. the larger the proportion of income spent on the product.
D. the more necessary consumers consider the product to be.

Question 5

Which one of the following best describes asymmetric information as a form of market failure?

A. consumers lacking the income to purchase a good they value
B. one party to a transaction having more or better information than the other party
C. a good being consumed by people who have not paid for it
D. a producer passing part of its costs of production on to third parties

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The table below shows some labour market data for a hypothetical economy.

Employed people (000s)	Unemployed people (000s)	Underemployed people (000s)
13 000	600	900

Question 6

Based on this data, the labour force under-utilisation rate is closest to

A. 4.4%
B. 6.6%
C. 11.0%
D. 15.0%

Question 7

Which one of the following is **least likely** to increase the level of aggregate supply in the Australian economy?

A. an increase in the quantity of skilled labour
B. a fall in the cost of imported capital equipment
C. an improvement in production technology
D. an increase in consumer confidence

Question 8

The underlying (core) rate of inflation differs from the headline rate of inflation because the underlying rate

A. excludes or reduces the weight of items with volatile price movements.
B. measures changes in the prices of imported goods and services only.
C. is calculated using the Gross Domestic Product deflator rather than the Consumer Price Index.
D. includes changes in house prices, which the headline rate excludes.

Question 9

An economy's inflation rate falls from 4% to 2% over a year. During that year, the general level of prices in the economy was

A. falling, which is deflation.
B. rising more slowly than before, which is disinflation.
C. constant, which is price stability.
D. rising more quickly than before, which is inflation.

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Marking scheme – teacher copy

Practice examination 1 – 2027

Not for distribution to students.

Section	Questions	Marks available	Marks awarded
Section A	15	15	
Section B	7	65	
Total		**80**	

Section A

Question	Key	Question	Why
1	**B**	Intertemporal efficiency is achieved when	Intertemporal efficiency is the optimal balance between resources used for current consumption and those used for saving and investment for the future. Option A was incorrect because it describes allocative efficiency; C describes productive (technical) efficiency; D describes dynamic efficiency.
2	**A**	Which one of the following is the most likely cause of the shift shown?	A rightward shift of demand is caused by a non-price demand factor. A rise in the price of a substitute (petrol scooters) makes electric bicycles relatively more attractive, so demand increases at every price. Option B was incorrect because a change in the good's own price causes a movement along the curve, not a shift; C is a supply factor (costs of production) and would shift S; D would shift demand to the left.

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3	**C**	The opportunity cost of each additional car produced when the economy moves from point X to point Y is	Moving from X to Y gains 10 000 cars and forgoes 15 000 trucks, so each extra car costs 15 ÷ 10 = 1.5 trucks. Option A was incorrect because 15 is the total number of trucks forgone, not the cost per car; B confuses the gain in cars with the cost; D inverts the ratio (10 ÷ 15).
4	**D**	The price elasticity of demand for a product is likely to be lower	The more necessary a product is, the less responsive quantity demanded is to a price change, so PED is lower. Options A, B and C each describe a condition that makes demand more elastic (more substitutes, more time to adjust, a larger share of income).
5	**B**	Which one of the following best describes asymmetric information as a form of market failure?	Asymmetric information is a situation where one party to a transaction has more or better information than the other, so the market may fail to allocate resources efficiently. Option A describes a distribution issue, not a study-design market failure; C describes the free-rider problem of public goods; D describes a negative externality in production.
6	**C**	Based on this data, the labour force under-utilisation rate is closest to	Labour force = 13 000 + 600 = 13 600 (000s). Under-utilisation rate = (600 + 900) ÷ 13 600 × 100 = 11.0%. Option A (4.4%) is the unemployment rate alone; B (6.6%) is the underemployment rate alone; D (15.0%) divides by the number of employed rather than the labour force. Underemployed people are already counted in the labour force and must not be added to the denominator.

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7	**D**	Which one of the following is **least likely** to increase the level of aggregate supply in the Australian economy?	Consumer confidence is an aggregate demand factor: it changes willingness to spend, not the economy's capacity to produce. Options A, B and C each describe an aggregate supply factor from the study design (quantity of the factors of production, costs of production, technological change) and would increase AS.
8	**A**	The underlying (core) rate of inflation differs from the headline rate of inflation because the underlying rate	The underlying (core) rate removes or down-weights items with volatile or one-off price movements (the trimmed mean), so it shows the persistent trend. Option B was incorrect because imported prices are part of both measures; C is not how the RBA measures underlying inflation; D is incorrect because the CPI excludes the purchase price of established houses in both measures.
9	**B**	An economy's inflation rate falls from 4% to 2% over a year. During that year, the general level of prices in the economy was	A positive but falling inflation rate means prices are still rising, only more slowly: disinflation. Option A (deflation) requires a negative inflation rate; C would require a zero rate; D describes accelerating inflation.
10	**C**	Which one of the following is an example of an indirect tax collected by the Australian Government?	The GST is levied on spending and passed on through prices, so it is an indirect tax. Personal income tax, company tax and capital gains tax (A, B, D) are direct taxes levied on income or gains and paid by the person who bears them.

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