

# Exam Practice Guide

## Unit 1

## Economics

## Examination Questions

### Key Features:

- ✓ 77 original examination style questions on all examinable topics.
- ✓ Full solutions and a marking guide to all questions.
- ✓ Separated into key topic areas within each Area of Study, enabling students to master one topic at a time.
- ✓ Written by VCE assessors who mark the real examinations.
- ✓ Excellent resource for examination practice.

---

***Helping VCE students be the best they can be.***

---

Copyright © TSSM 2017

TSSM

ACN 099 422 670

ABN 54 099 422 670

**A:** Level 14, 474 Flinders Street Melbourne VIC 3000

**T:** 1300 134 518

**F:** 03 90784354

**W:** [tssm.com.au](http://tssm.com.au)

**E:** [info@tssm.com.au](mailto:info@tssm.com.au)

SAMPLE

# CONTENTS

## Unit 1 Economics: The behaviour of consumers and businesses

### AREA OF STUDY 1: Thinking like an economist

Page

#### Introductory Concepts

Topic 1 – Relative scarcity	4
Topic 2 – Opportunity Cost and production possibilities	5
Topic 3 – Economic resources	7
Topic 4 – Living Standards	8
Topic 5 – The basic economic questions	9
Topic 6 – Positive and normative economics	9
Topic 7 – Trade-offs	10
Topic 8 – Two sector circular flow	11

#### Consumers

Topic 1 – Consumer behaviour	12
Topic 2 – Factors affecting consumer decisions	13

#### Business

Topic 1 – Business behaviour	14
Topic 2 – Factors affecting business decisions	15
Topic 3 – Business strategies	16

### AREA OF STUDY 2: Decision making in markets

Topic 1 – Perfectly competitive market systems	17
Topic 2 – Law of Demand	19
Topic 3 – Law of Supply	25
Topic 4 – Equilibrium	27
Topic 5 – Relative prices	32
Topic 6 – Market Power	33

### SOLUTIONS

38

**AREA OF STUDY 1: Thinking like an economist****Introductory Concepts****Topic 1 – Relative scarcity****Question 1**

The study of economics can best be described as

- A. The study of money and how it is used
- B. The study of how governments manage the economy
- C. The study of how scarce resources are used
- D. The study of the opportunity costs of production

**Question 2**

Relative scarcity refers to the situation where:

- A. There are unlimited wants matched by an unlimited amount of resources
- B. There are unlimited wants relative to the resources available to satisfy them
- C. There are unlimited resources relative to the wants we would like to satisfy
- D. There are limited resources, meaning low income earners will need assistance.

**Question 3**

The basic economic problem is best described as

- A. Distribution of income
- B. Inflation
- C. Unemployment
- D. Relative scarcity

**Question 4**

Relative scarcity can never be overcome because:

- A. People have an unlimited amount of wants and there are not enough resources available to fulfil these wants.
- B. Governments interfere with the economy and this leads to inefficiency and waste.
- C. There is not enough money in the world.
- D. New resources are being discovered all the time.

**Question 5**

Define relative scarcity

---

---

---

---

2 marks

**Topic 2 – Opportunity Cost and production possibilities**

**Question 6**

Opportunity cost is defined as

- A. The benefit foregone by a decision to not use resources for their next best alternative use
- B. The next best alternative use for money
- C. The benefit derived from a decision to use resources in their best alternative
- D. The next best use for money and resources

**Question 7**

The following are the production possibilities for Economy ‘M’ assuming that it allocates its resources to the production of two products, wheat and wine

Production combinations	Wheat ( \$ million)	Wine (\$ million)
A	10	0
B	8.1	7
C	6.8	9
D	4	12.9
E	0	14

Based on the above data, which of the following statements are true?

- II. Economy M produces wine more efficiently
  - III. At combination D, productive efficiency is maximised
  - IV. Economy M produces both wine and wheat with equal efficiency
  - V. At point A, the opportunity cost of producing 10 units of wheat is 3 units of wine
- A. Options I and II
  - B. Options II, IV and III
  - C. Options I, II and III
  - D. Options II and IV

**Question 8**

Provide definitions for the following terms:

- i. opportunity cost

---



---



---

- ii. production possibility frontier

---



---



---

2 + 2 = 4 marks