

SACE Stage 2 Economics Practice Exam (Sample)

Study Guide



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Questions

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- 1. What term describes a situation where income is barely sufficient for survival?**
 - A. Relative Poverty**
 - B. Absolute Poverty**
 - C. Extreme Income Inequality**
 - D. Substandard Living Conditions**
- 2. Which structure is marked by a single seller in the market?**
 - A. Oligopoly**
 - B. Monopolistic Competition**
 - C. Pure Competition**
 - D. Monopoly**
- 3. Which company is identified as a mortgage broker that enhances accessibility to home loans?**
 - A. Commonwealth Bank**
 - B. Aussie Home Loans**
 - C. ANZ Bank**
 - D. NAB**
- 4. What term describes the time taken for production adjustments after a price change?**
 - A. Time Lags**
 - B. Price Floors**
 - C. Demand Shifts**
 - D. Elasticity Measures**
- 5. What is the relationship between firm size and cost efficiency according to economies of scale?**
 - A. Larger firms are always more profitable**
 - B. Smaller firms usually have lower operational costs**
 - C. Firms need to grow in size to minimize production costs**
 - D. Firm size has no significant impact on costs**

- 6. Which management strategy emphasizes balancing various objectives instead of maximizing one specific goal?**
- A. Planning**
 - B. Satisficing**
 - C. Scaling**
 - D. Maximization**
- 7. Which process involves the government selling businesses to private shareholders?**
- A. Nationalization**
 - B. Privatisation**
 - C. Public Ownership**
 - D. State Control**
- 8. What impact does higher income have on saving levels?**
- A. Increases saving levels**
 - B. Decreases saving levels**
 - C. No impact on saving levels**
 - D. Leads to uncertain saving levels**
- 9. Which government is primarily responsible for infrastructure and regional development?**
- A. Commonwealth Government**
 - B. State Government**
 - C. Local Government**
 - D. Federal Government**
- 10. What type of supply is represented by a producer's output at various price levels?**
- A. Market Supply**
 - B. Aggregate Supply**
 - C. Individual Supply**
 - D. Consumer Supply**

Answers

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1. B
2. D
3. B
4. A
5. C
6. B
7. B
8. A
9. B
10. C

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Explanations

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1. What term describes a situation where income is barely sufficient for survival?

A. Relative Poverty

B. Absolute Poverty

C. Extreme Income Inequality

D. Substandard Living Conditions

The term that describes a situation where income is barely sufficient for survival is absolute poverty. This concept is defined by the inability to meet basic needs such as food, shelter, and clothing, which is crucial for sustaining life. Absolute poverty exists when individuals or families cannot secure enough resources to maintain a minimum standard of living necessary to survive. This contrasts with other terms such as relative poverty, which refers to a situation where income levels are significantly lower than the average within a society, impacting the ability to participate in everyday activities. Extreme income inequality focuses on the disparity of income distribution across different segments of the population, rather than the income sufficiency for survival. Lastly, substandard living conditions refer to the quality of living environments being below acceptable levels, which may contribute to poverty but does not specifically denote the income aspect. In summary, the correct answer highlights a critical aspect of economic hardship, emphasizing the essential nature of income sufficiency for survival.

2. Which structure is marked by a single seller in the market?

A. Oligopoly

B. Monopolistic Competition

C. Pure Competition

D. Monopoly

The market structure characterized by a single seller is known as a monopoly. In a monopoly, one firm dominates the entire market, providing a unique product or service with no close substitutes available to consumers. This lack of competition allows the monopolist to have significant control over pricing, as they are the sole provider of the good or service. In a monopoly, the barriers to entry are typically high, restricting other firms from entering the market. This could be due to factors such as high startup costs, control of resources, government regulation, or technology. As a result, the monopolist can maximize profits by setting prices above the marginal cost of production, leading to higher prices for consumers than in more competitive markets. Other market structures, such as oligopoly, monopolistic competition, and pure competition, involve multiple sellers or significant competition that influences pricing and output decisions differently than in a monopoly. In oligopoly, there are a few large firms that dominate the market, while monopolistic competition features many firms competing with differentiated products. Pure competition consists of numerous sellers offering identical products, which generally leads to prices settling at the level of the marginal cost of production. Thus, the distinctive characteristic of a monopoly is solely the presence of one seller in the market.

3. Which company is identified as a mortgage broker that enhances accessibility to home loans?

A. Commonwealth Bank

B. Aussie Home Loans

C. ANZ Bank

D. NAB

Aussie Home Loans is recognized as a mortgage broker that enhances accessibility to home loans. Unlike traditional banks, mortgage brokers serve as intermediaries between borrowers and lenders, helping clients navigate the various loan options available. Aussie Home Loans specializes in this role, providing expert advice and facilitating the mortgage application process for home buyers, making it easier for them to secure financing. This emphasis on accessibility distinguishes Aussie from the other options, which are primarily traditional banks and financial institutions focused on providing direct banking services and products without the brokerage aspect.

4. What term describes the time taken for production adjustments after a price change?

A. Time Lags

B. Price Floors

C. Demand Shifts

D. Elasticity Measures

The term that describes the time taken for production adjustments after a price change is "time lags." When the price of a good or service changes, producers may not be able to respond immediately due to various constraints such as existing contracts, production schedules, or the time required to scale up or down production levels. These delays in adjusting production based on price changes are referred to as time lags. In this context, understanding time lags is critical in economics because they can affect supply responses and market equilibrium. For instance, if there is an increase in price due to higher demand, producers may take time to ramp up production, resulting in a temporary imbalance between supply and demand. Analyzing the length and causes of these lags can help in forecasting market behavior and understanding the dynamics of supply and demand. The other terms listed do not refer to the time interval needed for such adjustments. Price floors are minimum prices set by the government to prevent prices from falling below a certain level. Demand shifts refer to changes in consumer preferences or income that affect the quantity demanded at various price levels. Elasticity measures assess the responsiveness of quantity demanded or supplied to changes in price or other factors but do not directly pertain to the time it takes for these adjustments to

5. What is the relationship between firm size and cost efficiency according to economies of scale?
- A. Larger firms are always more profitable
 - B. Smaller firms usually have lower operational costs
 - C. Firms need to grow in size to minimize production costs**
 - D. Firm size has no significant impact on costs

The correct answer emphasizes the concept of economies of scale, which refers to the advantages that larger firms experience as they increase their production. As firms grow in size, they can spread their fixed costs—such as administrative expenses, research and development, and capital investments—over a larger output. This results in a reduction of the average cost per unit produced, leading to greater cost efficiency. Additionally, larger firms may have access to better technology, bulk purchasing of materials, and a more specialized workforce, all of which contribute to lowering production costs. The notion that firms need to grow in size to minimize their production costs aligns with the economic principle that larger scale operations can achieve more efficient production methods and capitalize on the benefits of per-unit cost reductions, thus reinforcing the importance of firm size in maintaining competitive advantage in many markets.

6. Which management strategy emphasizes balancing various objectives instead of maximizing one specific goal?
- A. Planning
 - B. Satisficing**
 - C. Scaling
 - D. Maximization

The choice that highlights a management strategy emphasizing a balance among various objectives, rather than focusing solely on maximizing a specific goal, is indeed the concept of satisficing. Satisficing refers to the approach in decision-making where managers seek a solution that meets acceptable thresholds across multiple objectives instead of pursuing the optimal solution for just one goal. This strategy acknowledges the complexities of real-world scenarios, where resources are often limited, and stakeholders have diverse needs and interests. By adopting a satisficing approach, management can achieve a more holistic balance that addresses various operational goals while avoiding the pitfalls of over-concentration on a single target, such as profit maximization or market share expansion. In contrast, strategies like planning may involve outlining steps to attain goals without necessarily addressing the balance among multiple objectives. Scaling focuses on growth and expansion, typically emphasizing the optimization of output or efficiency. Maximization directly aims for the highest possible outcome for a specific objective, which can lead to suboptimal performance across other areas if pursued too aggressively.

7. Which process involves the government selling businesses to private shareholders?

A. Nationalization

B. Privatisation

C. Public Ownership

D. State Control

Privatisation is the process through which the government transfers ownership of public sector businesses or assets to private individuals or entities. This typically involves selling shares or assets to private shareholders, allowing them to have control and potentially profit from the operations of those businesses. The rationale behind privatisation often includes goals such as increasing efficiency, reducing government debt, enhancing competition, and providing quality services driven by profit motives. By transferring ownership to the private sector, the government can focus on its core responsibilities while allowing private entities to manage the businesses more flexibly. In contrast, nationalization refers to the government taking control or ownership of private enterprises, while public ownership indicates that resources or enterprises are owned collectively by the state or government. State control implies government regulation or oversight without necessarily transferring ownership. These processes differ fundamentally from privatisation, as they do not involve selling businesses to private shareholders.

8. What impact does higher income have on saving levels?

A. Increases saving levels

B. Decreases saving levels

C. No impact on saving levels

D. Leads to uncertain saving levels

Higher income generally leads to increased saving levels as individuals and households typically have more disposable income available for savings after meeting their essential needs and wants. When people earn higher incomes, they might choose to save a larger portion of their income to prepare for future financial goals, such as purchasing a home, funding education, or preparing for retirement. Additionally, as income rises, individuals often experience an increase in consumer confidence, which can encourage them to save more in anticipation of future expenses or investing opportunities. The concept of the marginal propensity to save suggests that as income increases, the proportion of income saved typically also increases, reflecting a preference for financial security and investment. In contrast, lower income levels often limit the capacity to save due to higher proportions of income being necessary for immediate consumption and basic living expenses. Therefore, the relationship between higher income and saving levels aligns well with the understanding that greater financial resources provide more opportunities for savings growth.

9. Which government is primarily responsible for infrastructure and regional development?

- A. Commonwealth Government**
- B. State Government**
- C. Local Government**
- D. Federal Government**

The state government is primarily responsible for infrastructure and regional development because it plays a critical role in planning, funding, and managing such projects within its jurisdiction. State governments oversee transportation infrastructure, health facilities, education, and public works that directly impact regional economic development and community well-being. They have the authority to set policies, allocate budgets, and work with local communities to promote regional growth. While the Commonwealth, or federal government, also engages in infrastructure projects, such as national highways and significant transportation initiatives, it typically focuses on broader national interests, leaving state governments to handle the specific needs of their regions. Local governments are more concerned with community-specific issues at a much smaller scale, focusing on immediate urban planning and local services rather than large-scale regional development projects. This division of responsibilities clarifies that state governments are integral to regional infrastructure and development within Australia.

10. What type of supply is represented by a producer's output at various price levels?

- A. Market Supply**
- B. Aggregate Supply**
- C. Individual Supply**
- D. Consumer Supply**

The correct answer relates to individual supply, which represents the quantity of goods or services that a single producer is willing and able to sell at various price levels. This concept is crucial in understanding how individual firms respond to changes in market prices, as it reflects the specific supply decisions made by a single entity based on its costs, technology, and the price it can receive for its product. Individual supply is typically illustrated through a supply curve, where the x-axis shows the quantity supplied and the y-axis shows the price. As the price increases, the quantity that the producer is willing to supply generally increases, reflecting the law of supply. This relationship highlights the behavior of one specific producer rather than the broader market or aggregate outcomes. In contrast, market supply would consider the total output of all producers in the market at various price levels, making it a collective measure rather than an individual one. Aggregate supply refers to the total supply in the economy, incorporating all sectors and is influenced by broader economic factors. Consumer supply, while somewhat non-standard in terminology, does not exist in the same way, as it usually pertains to demand rather than supply from producers. Understanding individual supply is foundational for analyzing how producers make decisions based on price changes, which can lead to insights about competitive