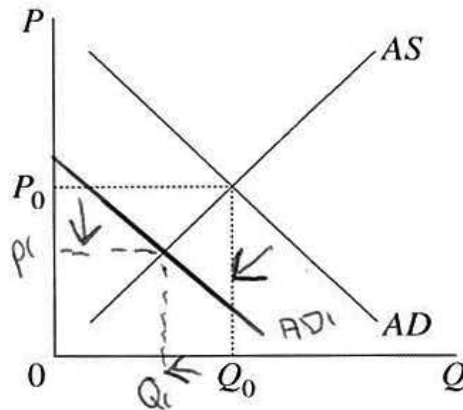


Question 24 (10 marks)

- (a) The following diagram shows aggregate demand and aggregate supply curves for a hypothetical economy. 2



On the diagram, draw the new curve that results if there is a fall in labour productivity. Label the new equilibrium price P_1 and the new equilibrium quantity Q_1 .

- (b) Outline an effect of product market deregulation on inflation. 2

Deregulation is the decentralization of a labour market policy.

- (c) Outline a feature of a centralised labour market policy. 2

New business/opportunities/competition

Question 24 continues on page 17

Question 24 (continued)

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- (d) Outline an advantage and a disadvantage of moving from a fixed exchange rate to a floating exchange rate system.

A fixed exchange rate is one that doesn't change while economies with a floating exchange rate system have a varying rate influenced by economic activity within the country.

A disadvantage would be the unpredictability of the rate.

End of Question 24