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# How Economies Differ

## Multiple Choice Answers

<b>1</b>	A	<b>6</b>	B	<b>11</b>	C
<b>2</b>	C	<b>7</b>	B	<b>12</b>	C
<b>3</b>	B	<b>8</b>	C	<b>13</b>	A
<b>4</b>	A	<b>9</b>	B	<b>14</b>	C
<b>5</b>	D	<b>10</b>	A	<b>15</b>	A

## Short Answer Questions

### Question 1

- (a) Consumer sovereignty refers to the ability of consumers, through their demand for goods and services, to determine the patterns of production in the economy.
- (b) A correct answer may include any two of the following:
- As more firms compete against each other, prices tend to fall
  - Businesses are unable to charge excessive prices and make excessive profits
  - There tends to be a greater variety of goods and services in the market
  - Firms will be forced to become more efficient in order to remain competitive
- (c) A centrally planned economy is one where the government makes all economic decisions, and there is little room for the free market. Usually this involves government ownership of industry.
- (d) Under a market economy, firms and consumers determine the pattern of production in the economy. Consumers send signals to firms through their consumer demand, and firms will respond by producing products which are in demand. Income is sourced from the returns to the factors of production. By contrast, in a centrally planned system the government determines the patterns of production, and provides all income for individuals. A centrally planned system also has government ownership of resources, whereas a market based economy will have private ownership of property.

**Question 2**

- (a) A correct answer may include any two of the following:
- To improve the allocation of resources in the economy by taxing undesirable products or subsidising desirable products; as well as providing goods and services not provided by the private sector.
  - To influence the distribution of income, by using its ability to tax income, and provide social welfare.
  - To promote economic stability by smoothing out the fluctuations of the business cycle through the use of economic policy.
- (b) The government could firstly use a progressive income tax system, which taxes higher income earners at a higher rate than lower income earners, to reduce the disposable income of higher income earners. The government could also provide social welfare payments to lower income earners to raise their disposable incomes.
- (c) The government is the main provider of health care in Australia, providing universal access to health care through the medicare system, and approximately two thirds of all health care services in Australia. This is in contrast to the US which relies on the private sector for most of its health care services. The Australian government also provides free primary and secondary education. Tertiary education is subsidised by the government, and most universities are publicly owned.
- (d) Government intervention is often criticised for interfering with the efficient operation of market forces, which if left to function alone would provide the most efficient allocation of resources. For example, when the government restricts ownership of industries to a government-owned monopoly, the public loses the benefit of increased competition between firms, and the government business (which lacks a profit motive) tends to be less efficient than a private firm.

**Question 3**

- (a) Quality of life refers to the overall wellbeing of individuals in the economy. The most commonly quoted measure is the Human Development Index (HDI) which includes measures of material well-being (GDP per capita) as well as education and life expectancy.
- (b) Australia was ranked third in the world in terms of development, but only fourteenth in terms of GDP per capita, indicating that Australia has a high quality of life. By contrast, Luxembourg has the highest GDP per capita, but is ranked twelfth in development, indicating that its quality of life is not as high as its material wellbeing.
- (c) Economies can differ in terms of population. A country with a higher population might have a higher GDP than a country with a lower population because it has more labour resources. However, that gives no indication of the economic outcomes for each individual. GDP per capita is used to enable a comparison between economies of different sizes.
- (d) Australia is an economy with a large endowment of commodity resources such as coal, iron ore and uranium. Due to the abundance of fossil fuels available, Australia has become reliant on non-renewable resources to produce energy, and has the second-highest carbon emissions per capita in the world. Australia also makes poor use of its water resources, with an average water productivity level well below the world average. Australia also has made limited attempts to protect the environment. Despite low population levels, the percentage of land protected as national parks is below global averages.