Centre Number

Student Number

CATHOLIC SECONDARY SCHOOLS
ASSOCIATION OF NEW SOUTH WALES

2001
TRIAL HIGHER SCHOOL CERTIFICATE EXAMINATION

Economics

Morning Session
Tuesday 14 August 2001

General Instructions

- Reading time – 5 minutes
- Working time – 3 hours
- Write using blue or black pen
- Board-approved calculators may be used
- Use the Multiple Choice Answer Sheet provided

Section I Pages 3 – 7

Total marks **(20)**
- Attempt Questions 1 – 20
- Allow about 35 minutes for this section

Section II Pages 9 – 16

Total marks **(40)**
- Attempt Questions 21 – 24
- Allow about 1 hour and 15 minutes for this section

Section III Pages 17 – 18

Total marks **(20)**
- Attempt either Question 25 or Question 26
- Allow about 35 minutes for this section

Section IV Page 19

Total marks **(20)**
- Attempt Questions 27 or Question 28
- Allow about 35 minutes for this section

1401-1

EXAMINERS

Stephen Bunyan (Convenor)	De La Salle College, Cronulla
Tony Ginestra	Patrician Brothers College, Fairfield
Sally Hunt	Stella Maris College, Manly
Peter McLean	St Ignatius College, Riverview
Zoe Pearcy	St Pauls College, Manly
Keith Rodger	Baulkham Hills High School, Baulkham Hills

SOURCES

Question 22	table adapted from *Updated Economics 2000*, Bulmer & Chapman
Question 23	Item 1: Tim Dixon, *Leading Edge Economics Options 2000* Item 2: *ABS* Cat. 6523.0 1997-98 Income Distribution, Australia Item 3: Michael Raper AACOSS President, March 1999
Question 24	*Leading Edge Economics* June 2000
Question 25	Item 1: *Sydney Morning Herald* 14 November 2000 Item 2: Graeme Samuel, President, National Competition Council *Australian Financial Review* 21 June 2000 Item 3: ANZ Bank, August 2000
Question 26	Item 1: *Leading Edge Economics* September 2000 Item 2: *Sydney Morning Herald* 14 November 2000 Item 3: Tim Riley, *Economic Problems and Issues in 2000*

Section 1

Total marks (20)
Attempt Questions 1 20
Allow about 35 minutes for this section

Use the Multiple Choice Answer Sheet provided

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1 What does the terms of trade measure?

X (A) the volume of exports relative to the volume of imports
(B) export prices relative to import prices
(C) export prices and volumes relative to import prices and volumes
(D) imports relative to exports

2 Which of the following fiscal policy measures could result in a contractionary effect on the economy?

(A) a rise in interest rates
(B) an increase in transfer payments
(C) a cut in company tax rates
✓ (D) a structural decrease in a budget deficit

3 Which one of the following is a possible disadvantage of globalisation for Australia?

(A) greater access to world markets for Australian producers
(B) increased range of consumer goods for Australians
✓ (C) greater reliance on overseas economic conditions
(D) improved access to international sources of finance

4 What is measured by the trade weighted index?

(A) relative inflation rates
(B) exchange rates
(C) the current account deficit
X (D) the balance of merchandise trade

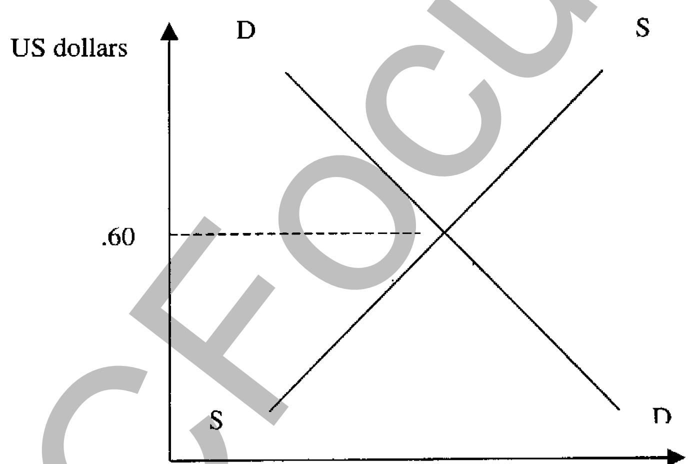
5 The following table shows GDP, and population figures for different countries

Country	GDP $ billions	Population millions
A	12 120	10
B	10. 300	30
C	13 240	18
D	11 55	5

According to the above figures, which country has the highest level of economic development?

(A) country A
(B) country B
√ (C) country C
(D) country D

6 The following diagram shows the demand and supply for Australian dollars in U.S. currency.



If the U.S. economy raises its domestic interest rates what would be the likely effect on the Australian dollar?

(A) a shift to the right of the demand curve and an increase in the value of the Australian dollar
√ (B) a shift to the right of the supply curve and a decrease in the value of the Australian dollar
(C) a shift to the right of the supply curve and an increase in the value of the Australian dollar
(D) a shift to the left of the supply curve and a decrease in the value of the Australian dollar

MPC

7 If the gradient of the consumption function is 0.75 and the Australian government reduces its budget surplus by $100m, other things being equal, what is the effect on national income?

(A) decrease by $100m
(B) increase by $100m
(C) decrease by $400m
(D) increase by $400m

8 The following table shows the maximum number of snow boards or snow skis produced by two countries using the same quantity of resources.

Country	Snow boards	Snow skis
A	6000	2000
B	4000	1000

Country A has:

(A) an absolute advantage in the production of snow boards only
(B) an absolute advantage in the production of snow skis only
(C) a comparative advantage in the production of snow boards only
(D) a comparative advantage in the production of snow skis only

9 What is the role of the Employment Advocate?

(A) to administer Australian Workplace Agreements
(B) to test Certified Agreements
(C) to make submissions on the Safety Net Wages Cases
(D) to help unions and employers reach an agreement on wages

10 This question is based on the Balance of Payments data below

	$b
Balance on Goods and Services	-4.4
Balance on Capital and Financial Account	22.0

Which of the following is the value of Net Income and Transfers?

(A) $17.6b
(B) -$17.6b
(C) $26.4b
(D) -$26.4b

11 The following table shows CPI data for an economy.

Year	CPI
1	110
2	121

What is the inflation rate for this economy in Year 2?

(A) 10%
(B) 11%
(C) 12%
(D) 21%

12 Which of the following is an example of a multilateral approach to reducing world trade protection?

(A) Closer Economic Relations Trade Agreement (CETRA)
(B) Organisation of Petroleum Exporting Countries (OPEC)
(C) World Trade Organisation (WTO)
(D) International Monetary Fund (IMF)

13 What would be the effect of Reserve Bank sales of government securities to money market dealers?

(A) it would reduce both liquidity and interest rates
(B) it would reduce liquidity and raise interest rates
(C) it would increase both liquidity and interest rates
(D) it would increase liquidity and lower interest rates

*

14 Other things being equal, what is the most likely effect of a prolonged decrease in the value of the Australian dollar?

(A) an increase in the volume of imports and an increase in inflationary pressures
(B) a decrease in the volume of imports and an increase in inflationary pressures
X (C) an increase in the volume of exports and a decrease in inflationary pressures
(D) a decrease in the volume of exports and an increase in inflationary pressures

15 If X = 50, M = 40, G = 50, T = 80, I =10 and S =5, what will happen to the economy?

S + T + M = I + G + X
5 80 40 → 10 50 50
125 > 110

(A) the economy will expand because exports are greater than imports
(B) the economy will contract because of fiscal policy
(C) the economy will expand because of high consumer spending
(D) the economy will contract because imports are high

16 What is the major destination of Australian exports?

(A) New Zealand
(B) The European Union
(C) Germany and the U.K.
(D) The Asia Pacific Region

17 Which of the following best describes a 10% sales tax on all goods and services?

(A) progressive because high income earners will pay a higher percentage of their income in tax
(B) regressive because low income earners will pay more tax
(C) regressive because low income earners will pay a higher percentage of their income in tax
(D) proportional because all income earners will pay the same rate of tax

18 Why is Australia reducing levels of trade protection to domestic producers?

(A) Australian producers are efficient enough to compete with imports
(B) the government is attempting to create a budget surplus by removing tariffs
(C) protection does not encourage producers to become efficient
(D) prices of imports are rising rapidly and protection is no longer needed

19 The following table shows labour force data for an economy

	Number of persons
Full-time employed	10 million
Part-time employed	5 million
Unemployed	1 million
Population of working age	20 million
Total population	30 million

What is the labour force participation rate for this nation?

(A) 80%
(B) 75%
(C) 67%
(D) 50%

20 Which of the following is the best example of a negative externality?

(A) decreasing international competitiveness of Australian industries in the external sector
(B) one who chooses not to contribute to the cost of a public good
(C) an oil spill in Sydney Harbour
(D) removal of waste material from the Parramatta River

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Section II

Total marks (40)
Attempt Questions 21 – 24
Allow about 1 hour and 15 minutes for this section

Answer the questions in the space provided.

Question 21 (10 marks) **Marks**

The table gives selected economic data for Australia.

Year	Real GDP (billion $)	Unemployment Rate (%)	Inflation Rate	CAD $b
1990	441	6.2	8	22.9
1991	439	8.4	5.3	17.6
1992	441	10.4	1.9	13.3
1993	457	11	1.0	15.2
1994	476	10.5	1.8	16.2
1995	500	8.9	3.2	28.6
1996	520	8.4	4.2	21.6
1997	540	8.6	1.3	17.8
1998	565	8.3	0	22.7
1999	590	7.6	1.2	32.4
2000	615	6.3	3.2	33.0

Referring to the table:

(a) What is meant by real Gross Domestic Product (GDP)? **1**

value of ~~ex~~ production of g+s over a certain period of time, adjusted for infl.

(b) Calculate the percentage change in real GDP from 1995 to 1997 **2**
Show working.

Formula $\frac{yr - y_1}{y_1} \times 100$

$\frac{40}{500} \times 100 = 8\%$ change

Question 21 continues on page 10

Question 21 (continued) **Marks**

(c) Outline ONE possible cause of Australia's economic growth. **2**

↑ productivity growth → better
, more efficient allocation of goods →
economies of scale → ↑ PPF →
↑ EG

(d) Analyse one benefit and one cost of economic growth for Australia. **5**

- Cost → destruction of environment,
- ve externalities, price on the
environment

End of Question 21

Question 22 (10 marks) **Marks**

The table gives selected areas of microeconomic reform in the Australian economy.

Area	Reform	Progress
Product markets	Reduction in industry protection	Average level of protection now less than 5% in most manufacturing industries
Factor markets	Labour market	Widespread adoption of enterprise bargaining
	Capital market	Largely deregulated
Public sector	Corporatisation and Privatisation	Most Federal Government business activities subject to market competition
Taxation	GST and decreased income tax rates	Implemented July 2000

Using the table and your own knowledge:

(a) Define the term microeconomic reform. **1**

Micro is govt action & policy to improve resource allocation in & between firms + industries to maximise output from scarce resources.

(b) Explain one positive effect and one adverse effect of microeconomic reform on individuals: **2**

(i) positive effect

may lead to increased levels of productivity through efficient allocation of resources, ↑ Productivity → economies of scale with ↑ production → ↓ costs of good.

Question 22 continues on page 12

Question 22 (continued)

Marks

ii) adverse effect **2**

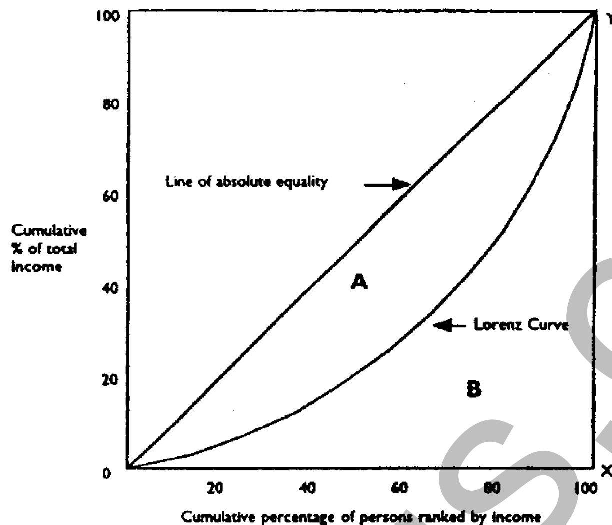
MCR promotes structural change which may lead to the decline of some industries, or where people are sacked because they are no longer efficient.

(c) Explain the contribution microeconomic reform can make towards economic growth and external stability. **5**

End of Question 22

Question 23 (10 marks) **Marks**

The diagram below illustrates Australia's Lorenz curve for 1997-1998.



Tim Dixon, *Leading Edge Economics Options 2000*

Gross weekly income earned by quintiles	**Share of income %**
Lowest 20%	3.8
2nd 20%	9.0
3rd 20%	15.0
4th 20%	23.9
Highest 20%	48.3
Gini coefficient	0.446

ABS *Cat. 6523.0 1997-98 Income Distribution, Australia*

> "Growing inequality is a critical problem for all Australians – not just the poor."

Michael Raper AACOSS President, March 1999

Using the information above:

(a) Calculate the percentage share of Australia's household income earned by the poorest 40% of income earners. **1**

....

Question 23 continues on page 14

Question 23 (continued) **Marks**

(b) What happens to the Gini coefficient if the Lorenz curve shifts to the right? **1**

the gini coefficient will approach 1

(c) Explain ONE possible cause of inequality in the distribution of income in Australia. **1**

(d) Explain why growing inequality is a problem for all Australians. **2**

Spill over effects. Can result in economic + social costs for all Australians eg. more money ~~fo~~ spent on law enforcement or socially - ~~etc~~ ↑ levels of tension + class division

(e) Analyse government policies to reduce income inequality in Australia. **4**

End of Question 23

Question 24 (10 marks) **Marks**

The stimulus material provides information on labour market policies (microeconomic reform) in Australia.

> The Workplace Relations Act 1996 cut back the system of industrial awards, gave employers more flexibility in negotiating enterprise agreements with their employees, and reduced the power of unions and the Industrial Relations Commission. It also introduced a new stream of individual contracts (Australian Workplace Agreements, or AWAs) to the industrial relations system. These reforms accelerated many of the trends which had been set in motion in the early 1990s

Leading Edge Economics June 2000

Using the stimulus material and your own knowledge:

a) Explain what is meant by the Award Safety Net. **2**

Min wage + conditions set out by AIRC for those people in weaker bargaining positions

b) Compare and contrast Certified Agreements and Australian Workplace Agreements. **4**

Question 24 continues on page 16

Question 24 (continued) **Marks**

c) Explain TWO benefits of enterprise bargaining. **4**

- Incentive for greater productivity

- May reduce infl.

End of Question 24

Section III

Total marks (20)
Attempt either Question 25 or Question 26
Allow about 35 minutes for this section

Answer the question in a SEPARATE writing booklet.

In your answer you will be assessed on how well you:

- use your knowledge and the economic information provided
- apply economic terms, concepts, relationships and theory
- present a sustained, logical and well-structured answer to the question

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Question 25 (20 marks)

Explain why a macroeconomic AND microeconomic response is necessary to address the problems of current account deficit and inflation.

> Until the June quarter 2001, CPI inflation measured on a four-quarter-ended basis can be expected to remain high probably over 5% because of the effects of tax reform.

Sydney Morning Herald 14 November 2000

> Competition policy in Australia is part of a far wider trend by nations towards greater reliance on competition and market forces… we must continue to remove barriers to competition if Australians want lower prices, better goods and services, job growth, and an improved ability to complete in world markets.

Graeme Samuel, President, National Competition Council *Australian Financial Review* 21 June 2000

Australian Economic Forecasts

Growth rate	*1998-99*	*1999-00*	*2000-01*
Economic growth	4.7%	4.5%	3.75%
Inflation	1.3%	2.25%	6.0%
Unemployment	7.2%	6.6%	6.5%
CAD	-5.5%	-5.25%	-4.5%

ANZ Bank, August 2000

OR

Question 26 (20 marks) **Marks**

Explain why the Australian government is restricted in simultaneously achieving its economic objectives.

Stimulus Material for Question 26

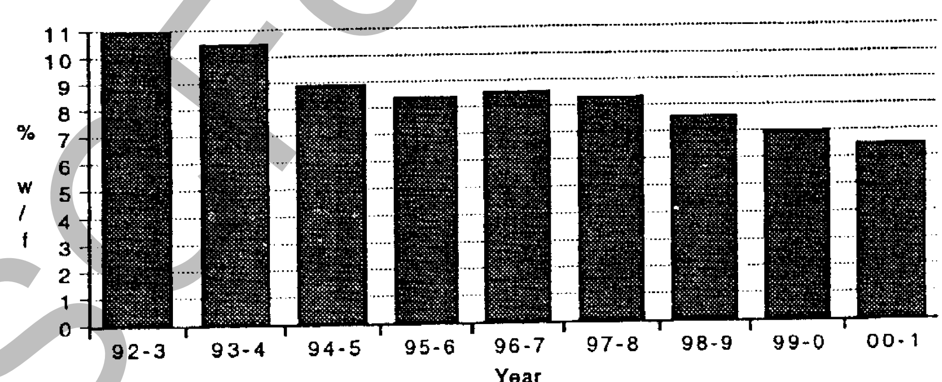
> Australia's **net foreign liabilities** are growing steadily, at a rate almost unchanged since the 1980s. Net foreign debt rose by 44% in the five years from June 1995 to June 2000, from \$186bn to \$268bn. Net foreign equity rose 98% from \$69bn to \$136bn, adding up to a total growth in foreign liabilities of 58%, going from \$255bn to \$404bn

Leading Edge Economics September 2000

> The former governor of the Reserve Bank Mr. Bernie Fraser, … questioned the Government for introducing the GST but putting little effort into tax systems such as those to encourage a cleaner environment.

Sydney Morning Herald 14 November 2000

Australia's Rate of Unemployment 1992-2001 (f)



Tim Riley, *Economic Problems and Issues in 2000*

Section IV

Total marks (20)
Attempt either Question 27 or Question 28
Allow about 35 minutes for this section

Answer the question in a SEPARATE writing booklet.

In your answer you will be assessed on how well you:

- use economic data
- apply economic terms, concepts, relationships and theory
- present a sustained, logical and well-structured answer to the question

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Question 27 (20 marks)

Outline the indicators of globalisation and explain how globalisation has affected an economy other than Australia.

OR

Question 28 (20 marks)

Explain why the Australian exchange rate fluctuates and discuss the effect of these fluctuations on the Australian economy.