

BARKER

2001

TRIAL

1. In Economics, which of the following would be regarded as investment?
 - (A) The purchase of 100,000 shares in National Australia Bank.
 - (B) The purchase of \$1 million of Commonwealth Government Securities.
 - (C) Siberian Airways buying a Boeing 747 passenger jet off QANTAS.
 - (D) A pizza store buying a new gas oven.

2. If the inflation rate falls from 6% p.a. in 2000 to 2% p.a. in 2001, which of the following statements is true?
 - (A) The general level of prices is falling at an increasing rate.
 - (B) The general level of prices is increasing at a falling rate.
 - (C) The general level of prices is falling at a decreasing rate.
 - (D) The general level of prices is increasing at an increasing rate.

3. What would be the usual effect of a decrease in the average level of tariffs on imported steel from 25% to 5%?
 - (A) Increase foreign producers' revenue and market share.
 - (B) Increase domestic producers' revenue and market share.
 - (C) Increase the general price level in a country.
 - (D) Increase domestic producers' costs of production

4. Study this table indicating opportunity cost of production for two different products in two countries and answer the question below.

	GOLF BALLS	GOLF CLUBS
Gregnormania	100	50
Cariewebbland	200	150

- Which of the following statements is true?
- (A) Gregnormania has an absolute advantage in the production of golf balls.
 - (B) Cariewebbland has a comparative advantage in the production of golf balls.
 - (C) Gregnormania has a comparative advantage in the production of golf balls.
 - (D) Cariewebbland has a comparative advantage in the production of both products.
5. What is the economic cost of unemployment?
 - (A) Lost production because the economy is operating within its productive possibility curve.
 - (B) Money spent by the Government on unemployment benefits.
 - (C) A higher rate of inflation.
 - (D) Money spent by the Government on job creation

 6. What is Australia's major source of imports?
 - (A) Japan.
 - (B) USA.
 - (C) ETMs.
 - (D) STMs.

7. Why is Australian expenditure on development aid often ineffective?

- (A) Developing countries already determine international technological transfers.
- (B) Australia is always able to influence the direction of investment within a developing country.
- (C) It fosters low income countries' dependency on Australia.
- (D) Low income countries have open access to Australia's domestic markets.

8. What is meant by the term **balance of payments constraint**?

- (A) The limits on economic growth imposed by an increasing and unsustainable CAD
- (B) A high CAD effectively setting a ceiling to the value of a country's exchange rate.
- (C) The growth of foreign liabilities caused by a high CAD.
- (D) A government policy which imposes a limit on the size of the CAD.

Study the following table for a hypothetical five sector economy to answer questions 9 and 10.

YEAR	Y	C	I	G
1997	500	300	100	100
1998	550	310	120	130
1999	575	325	150	150
2000	625	330	140	100

9. When is the Current Account balance in deficit?

- (A) 1997 to 2000 inclusive.
- (B) Only in 1997.
- (C) Only in 1998.
- (D) 1998 and 1999.

10. What is the main source of economic growth in 2000?

- (A) Consumption.
- (B) Investment.
- (C) Government spending.
- (D) Imports.

11. What is the main focus of the World Bank?

- (A) To advance trade agreements between APEC, EU, OPEC and NAFTA.
- (B) To finance the existing World Trade Organisation agreements.
- (C) To assist developing nations through the provision of credit and advice.
- (D) To maintain international financial stability.

Portuguese Question

12. Generally speaking, what would be the effect of an increase in Australian government spending on the provision of university places?
- (A) Redistribution economic welfare from high income households to low income households.
 - (B) Redistribution economic welfare from low income households to high income households.
 - (C) Redistribution economic welfare from middle income households to low income households.
 - (D) Such government spending would have no effect on the distribution of economic welfare.
13. If Australia's import prices increase slower than Australia's export prices, which of the following statements is certainly correct?
- (A) Australia's balance of trade has improved.
 - (B) Australia's exchange rate has depreciated.
 - (C) Australia's current account is in surplus.
 - (D) Australia's terms of trade have improved.
14. What would occur if the MPC is 0.8 and autonomous investment increased from \$100 billion to \$120 billion?
- (A) National income would increase by \$100 million.
 - (B) National income would increase by \$120 million.
 - (C) National income would increase by \$600 million.
 - (D) National income would reach equilibrium at \$600 million.
15. What is the most likely effect of a depreciation of the Australian dollar against all of Australia's major trading partners' currencies?
- (A) Australia's inflation rate would increase.
 - (B) The Trade Weighted Index would increase.
 - (C) Australia's international competitiveness would fall.
 - (D) Australia would suffer a slowdown in economic growth.
16. If labour productivity improved by 2.5% p.a. and the labour force increased by 1.8% p.a. which of the following rates of economic growth would be required to reduce unemployment?
- (A) 2% p.a.
 - (B) 2.8% p.a.
 - (C) 4.3% p.a.
 - (D) 4.6% p.a.

17. What would occur if the Japanese yen appreciates against the Australian dollar and if Australian demand for Japanese TVs is price inelastic?

- (A) Australian dollar expenditure would increase and Australian demand for Japanese TVs would expand.
- (B) Australian dollar expenditure would decrease and Australian demand for Japanese TVs would contract.
- (C) Australian dollar expenditure would increase and Australian demand for Japanese TVs would contract.
- (D) Australian dollar expenditure would decrease and Australian demand for Japanese TVs would expand.

18. What is usually seen as the dominant cause of Australia's continuing external imbalance?

- (A) A national savings problem.
- (B) A lack of international competitiveness.
- (C) A depreciating Australian dollar.
- (D) Strong domestic inflation.

19. What are the current main causes of unemployment in Australia?

- (A) Frictional and cyclical.
- (B) Cyclical and seasonal.
- (C) Structural and cyclical.
- (D) Seasonal and hard core.

20. What is an externality?

- (A) A situation where a third party bears some cost or benefit from consumption or production.
- (B) A situation where foreign government increase tariffs on Australia's exports.
- (C) A depreciation of the Australian dollar causing an increase import prices.
- (D) The establishment of trade blocs and other trade agreements with foreign governments.

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Section II

Total marks (40)

Attempt ALL questions

Allow about 75 minutes for this section

Answer the questions in the spaces provided

Question 21 (10 marks)

The following information refers to estimated population and employment figures for the Australian economy for June, 2000.

Selected population and employment data for Australia– June 2000		Statistics
Population		19 123 436
Population (0 - 14 years)		4 168 000
Population (65+ years)		2 454 000
Working full-time		6 825 000
Working part-time		2 275 000
Unemployed		668 000
Hidden unemployed (estimated)		390 000

- a) Estimate the size of Australia's labour force in June 2000. *Do not include the hidden ye'd*
write the formula. **1 mark**

- b) Calculate the unemployment rate for Australia in June 2000. Show your working. **1 mark**

Question 21 continues over the page

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- c) Explain the meaning of the term "participation rate". Calculate the participation rate for the Australian economy in June 2000. Showing all working. **2 marks**

- d) Explain the meaning of the term *natural rate of unemployment*. **2 marks**

- e) Explain an appropriate policy response that could correct the following types of unemployment –

- i) Cyclical unemployment - **2 marks**

- ii) structural unemployment – **2 marks**

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Question 22 (10 marks)

Regional Pollution Index (RPI)

Sydney region morning data

Date	Central east	North west	South west
01/07/2001	55	48	37
02/07/2001	44	45	29
03/07/2001	33	36	32
04/07/2001	15	16	13
05/07/2001	16	24	19
06/07/2001	24	29	38
07/07/2001	19	21	50
08/07/2001	16	31	27
09/07/2001	43	40	44
10/07/2001	15	17	19
11/07/2001	17	15	15
12/07/2001	43	24	29

NB: The RPI is categorised as **LOW**, **MEDIUM** or **HIGH**, as follows:

- **LOW:** pollution index from 0 to 24
- **MEDIUM:** pollution index from 25 to 49
- **HIGH:** pollution index 50 or higher.

Source: www.epa.nsw.gov.au

- a) What is the difference between a public and a private good? Why is the atmosphere considered a public good? **4 marks**

Question 22 continues over the page

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- b) Why is pollution considered an externality?

2 marks

- c) Explain two strategies that governments can use to encourage firms to internalise the impacts of externalities.

4 marks

i) _____

ii) _____

Question 23 (10 marks)**MANUFACTURING IN THE AUSTRALIAN ECONOMY**

Selected Statistics	1978	1990	2000
Real output – value added (\$ billions)	51.1	64.2	75.9
Real output as a % of total economy's value added	18.6	15.4	13.0
Employment (millions)	1.28	1.24	1.14
Employment as a % of total economy's employment	21.2	15.7	12.6

Source: Adapted from RBA Bulletin, March 2001

- (a) Describe the trend in the output of and employment in Australia's manufacturing industries between 1978 and 2000.

2 marks**Output**

Employment

Question 23 continues over the page

STUDENT No: _____

- b) Given the data above, suggest the likely trend in the productivity in Australian manufacturing industries in the period 1978 – 2000.

2 marks

- c) The Australian manufacturing sector underwent significant structural change in the period 1978 – 2000. Explain two causes of this structural change.

2 marks

i) _____

ii) _____

- d) Suggest the impacts of the structural change in the Australian manufacturing sector on –

- i) international competitiveness –

1 mark

Question 23 continues over the page

STUDENT No: _____

ii) resource allocation -

1 mark

iii) long term unemployed -

1 mark

iv) income distribution -

1 mark

STUDENT No: _____

Question 24 (10 marks)

Use your knowledge and the information below to answer the questions below.

SELECTED TRADE DATA – AUSTRALIA AND ASIA COUNTRIES

MARKETS	EXPORTS (SA million)				IMPORTS (SA million)			
	1998	1999	2000	%	1998	1999	2000	%
Japan	17,385	16,707	21,844	19.8	13,319	13,636	15,316	13.1
Korea	6,105	6,280	9,048	8.2	4,174	3,904	4,803	4.1
China	3,792	4,091	6,010	5.4	5,823	6,613	9,073	7.8
Taiwan	4,267	4,163	5,562	5.0	2,940	2,989	3,523	3.0
Singapore	3,279	4,081	5,874	5.3	2,682	4,159	3,712	3.2
Indonesia	2,153	2,146	2,893	2.6	3,557	2,784	2,700	2.3
Malaysia	1,828	1,941	2,363	2.1	2,721	3,240	4,266	3.6
Thailand	1,280	1,442	1,956	1.8	1,640	2,200	2,816	2.4
ASEAN	10,106	11,223	15,149	13.7	11,772	14,241	16,451	14.1
EU	12,336	10,843	12,537	11.4	23,085	23,121	25,457	21.8
OECD	53,513	51,164	63,367	57.4	69,369	69,527	77,261	66.1
APEC	62,515	63,341	81,836	74.1	67,329	71,197	82,207	70.3

Source: Adapted from Austrade – Economic and Trade Statistics (www.austrade.gov.au)

- a) Explain the trend in the direction of Australia's trade in recent years. **2 marks**

Question 24 continues over the page

STUDENT No: _____

b) Outline two economic advantages of increasing trade with Asia

2 marks

i) _____

ii) _____

c) Australia's commitment to increasing trade is based on developing a more "level playing field" for global trade.

Identify two federal government initiatives that have encouraged the development of a freer and more open global trading environment.

2 marks

i) _____

ii) _____

Question 24 continues over the page

STUDENT No: _____

- d) Explain using an example how the protectionist policies of other countries can disadvantage Australia's economic welfare.

2 marks

- e) Evaluate the impact that continued global integration will have on global income distribution.

2 marks

END OF SECTION II

Section III

Total Marks (20)

Attempt either Question 25 or Question 26

Allow about 35 minutes for this section

Answer the question on the paper provided. Write your student number on each page.

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

- Use your knowledge and the information provided
- Apply economic terms, concepts, relationships and theory
- Present a sustained, logical and well structured answer to the question

EITHER

Question 25 (20 marks)

make judgement
Analyse the various economic issues facing the Australian economy over the recent economic cycle.

YEAR	REAL GDP (%)	CAD (% GDP)	UN RATE (%)	AVERAGE DURATION OF UNEMPLOYMENT (WEEKS)	CPI (%)	NET FOREIGN DEBT (% GDP)	GINI COEFFICIENT
1991 - 92	0.3	3.5	10.4	45.4	1.8	39.3	n/a
1992 - 93	3.7	3.8	11.0	53.6	0.9	41.2	n/a
1993 - 94	4.1	5.8	10.5	57.3	1.7	37.3	n/a
1994 - 95	4.5	6.0	8.9	57.5	3.2	39.3	0.44
1995 - 96	4.4	4.1	8.5	51.6	4.2	38.4	0.44
1996 - 97	3.9	4.3	8.6	51.1	1.3	39.9	0.41
1997 - 98	4.8	4.0	8.3	53.6	0	40.9	0.45
1998 - 99	5.4	5.7	7.6	55.6	1.2	39.0	0.44
1999 - 00	4.4	5.4	6.9	52.1	2.4	43.1	0.45
2000 - 01 (e)	3.75	4.75	6.5	-	5.75	-	0.46

"Consumers are recognising that the natural capital that underpins the economic system should not be used and destroyed, but borrowed and held in trust for future generations and other species."

"Underpricing of natural resources has the effect of encouraging the use of resources at unsustainable rates. Underpricing most commonly occurs where the resource is available to everyone or where the benefits associated with the resource are not bought and sold. Areas of native timber, for example, may have a logging value, a value to bird watchers, a value as a carbon dioxide sink or a value to biodiversity. If a forest is logged, the selling price of the harvested timber does not generally reflect the cost of increased carbon dioxide in the atmosphere or the loss of bird habitat. This means the timber can be bought for less than its 'real' cost, which encourages timber harvesting at a rate that is higher than socially and environmentally optimal. This underpricing can be viewed as a subsidy or non-payment of environmentally damaging 'external' costs (environmental externalities)."

State of the Environment Report - 2000
NSW Environmental Protection Authority (www.epa.nsw.gov.au)

OR

Question 26 (20 marks)

Explain the current influences on unemployment in Australia and outline a potential policy mix that addresses Australia's unemployment concerns.

The unemployment rate has risen to 6.9% [and] is sure to rise further because ... the lead indicators for employment are grim.

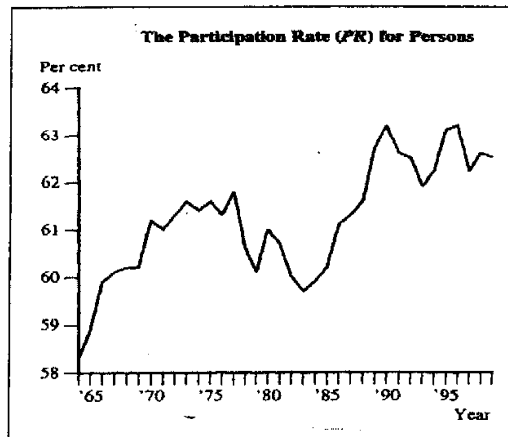
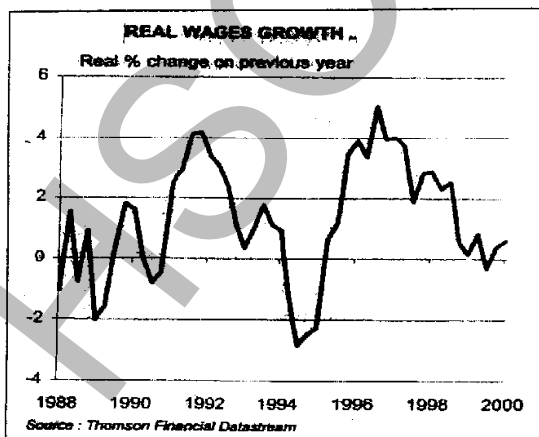
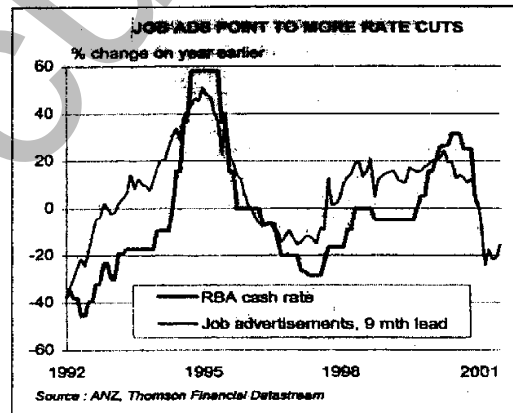
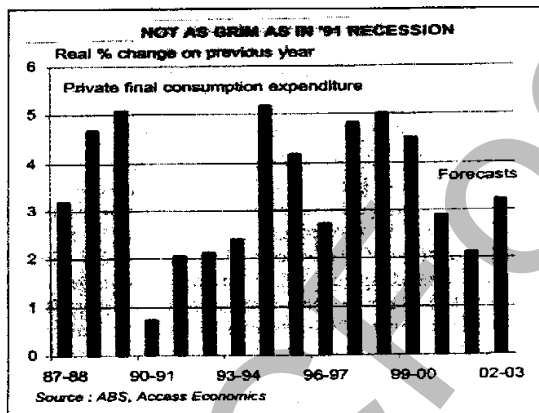
Access Economics – July, 2001

The unemployment rate tends to fall when output growth is high and to rise when output growth is low. But the magnitudes of changes in unemployment are usually much smaller than changes in the growth of output.

R. Dixon, University of Melbourne, April 2000.

Federal Budget Forecasts – 2001/2002		
	2001	2002
GDP	+2.0%	+3.25%
Employment Growth	+2.0%	+1.0%
Unemployment Rate	6.25%	7.0%
Business Investment	+5%	+3%

Commonwealth Budget, May 2001



Section IV

Total Marks (20)

Attempt either Question 27 or Question 28

Allow about 35 minutes for this section

Answer the question on the writing paper provided. Write your student number on all pages.

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**
-

EITHER

Question 27 (20 marks)

Analyse the impact of globalisation on the Australian economy.

OR

Question 28 (20 marks)

Discuss the effects of protectionist policies on the global economy.

END OF PAPER