

Economics

General Instructions

- Reading time – 5 minutes
- Working time – 3 hours
- Board approved calculators may be used
- Write using black or blue pen
- Write your student number and/or name at the top of every page

Section I - Pages 2 – 7
Total marks (20)
Attempt questions 1 – 20
Allow about 35 minutes for this section
Section II - Pages 8 – 15
Total marks (40)
Attempt questions 21 – 24
Allow about 1 hour 15 minutes for this section
Section III - Pages 16 – 18
Total marks (20)
Attempt EITHER Question 25 or 26
Allow about 35 minutes for this section
Section IV - Page 19
Total marks (20)
Attempt EITHER Question 27 or 28
Allow about 35 minutes for this section

This paper MUST NOT be removed from the examination room

STUDENT NUMBER/NAME:

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- Which of the following is a possible cause of cyclical unemployment?
 - People are out of work temporarily while in between jobs
 - Every year after Christmas stores lay off workers because they are no longer needed
 - There are already high levels of unemployment and some people stop looking for work
 - There is a downturn in economic activity and aggregate demand falls
- Which of the following organisations assists countries with balance of payments problems?
 - The World Trade Organisation
 - The European Union
 - The International Monetary Fund
 - The World Bank

- The following table shows the components of aggregate demand for a nation

Y	C	I	G	(X-M)
1000	600	100	100	150
1100	700	100	150	150
1250	800	100	150	150
1400	850	100	200	150

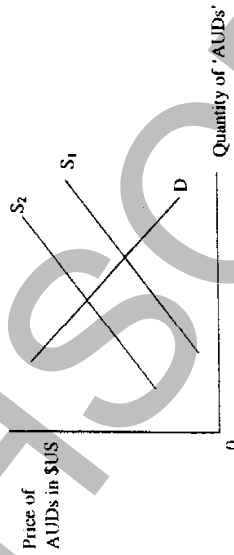
What is the equilibrium level of income in this nation?

- 1000
 - 1100
 - 1250
 - 1400
- Which of the following government policies has price stability as its major objective?
 - Fiscal policy
 - Prices and incomes policy
 - Monetary policy
 - Labour market policy
 - Why are many environmental resources considered to be public goods?
 - They cannot be used without causing externalities
 - They are rival and exclusive in production
 - They result in market failure
 - They are non-rival and non-exclusive in production

2001
Higher School Certificate
Trial Examination

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6. The following diagram shows the demand for and the supply of Australian dollars (AUDs) in the foreign exchange markets



Which one of the following is likely to cause a shift in the supply curve from S_1 to S_2 ?

- (A) Increased capital inflow and increased demand for imports
(B) Decreased capital inflow and increased demand for imports
(C) Decreased capital outflow and decreased demand for imports
(D) Increased capital outflow and decreased demand for imports

7. What are three common features of developing countries?

- (A) Low per capita incomes, high population growth and low levels of foreign debt
(B) High population growth, high levels of foreign debt and high levels of capital accumulation
(C) Low levels of domestic savings, low levels of technology and high levels of foreign debt
(D) Low levels of savings, low per capita incomes and high levels of capital accumulation

8. The following information refers to a nation's terms of trade.

Year	Import Price Index	Export Price Index
1	100	100
2	106	119

Other things being equal, what is the likely impact of the change in the terms of trade from Year 1 to Year 2 on this economy?

- (A) A given volume of exports will buy a larger volume of imports
(B) Import volumes have increased by 6%
(C) A given volume of exports will buy a smaller volume of imports
(D) The exchange rate will depreciate

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9. What is a non-inflationary method of financing a federal government budget deficit?

- (A) Increasing the base rate of the G.S.T.
(B) Reducing expenditure on social services
(C) Instructing the Reserve Bank to print more money
(D) Selling new government securities in domestic financial markets

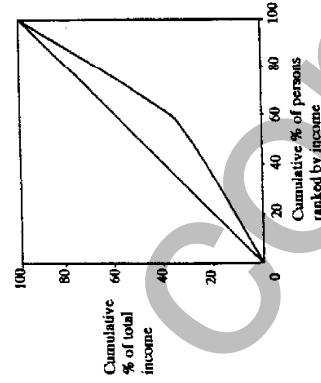
10. Which of the following government tax initiatives could reduce inequalities in the distribution of wealth in Australia?

- (A) Applying the G.S.T. equally on all goods and services
(B) The abolition of inheritance taxes
(C) The removal of the assets test for the aged pension
(D) Raising the tax rate on real capital gains

11. What is an acceptable economic argument for a government to impose a tariff on imports?

- (A) To raise revenue
(B) To retaliate against tariffs imposed by other countries
(C) To stop imports from countries with low labour costs
(D) To assist a new industry to become internationally competitive

12. The following diagram shows the Lorenz curve for average weekly earnings in Australia



In the above diagram which of the following statements is correct?

- (A) 60% of income earners receive 75% of total income
(B) 20% of income earners receive 40% of total income
(C) 60% of income earners receive 40% of total income
(D) 80% of income earners receive 60% of total income

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13. How could a recession in global economic activity lead to a deterioration in Australia's current account balance?

- (A) By reducing Australia's rate of economic growth, import spending would fall.
- (B) By reducing Australia's export income the goods balance would deteriorate
- (C) By reducing foreign direct investment in Australia, the exchange rate would depreciate
- (D) By increasing Australia's foreign debt, interest payments abroad would increase

14. The following table shows balance of payments information for a nation

Current Account	\$ billion
Exports	110
Imports	99
Service credits	32
Service debits	29
Net Income	-17

What is the balance on current account?

- (A) -\$14 billion
- (B) \$ 8 billion
- (C) -\$ 3 billion
- (D) \$14 billion

15. What is a major microeconomic objective of the ACCC's competition policy?

- (A) Perfect competition in markets
- (B) Monopolistics competition in markets
- (C) Workable competition in markets
- (D) Deregulation of all markets

16. Which of the following will be reduced as a result of lower rates of inflation?

- (A) The level of investment
- (B) The level of real income
- (C) Uncertainty in the economy
- (D) The purchasing power of money

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17. Why do developing countries promote policies to raise their levels of economic development?

- (A) To achieve increases in population growth
- (B) To achieve higher levels of human development
- (C) To achieve greater inequality in the distribution of income
- (D) To achieve higher levels of protection from import competition

18. The following table shows data for income and consumption in a closed economy

Disposable Income \$ m	Consumption \$ m
50	50
100	90
150	130
200	170
250	210

What is the value of the marginal propensity to consume (MPC) and the simple multiplier?

- (A) The MPC is 0.1 and the multiplier is 10
- (B) The MPC is 0.6 and the multiplier is 2.5
- (C) The MPC is 0.8 and the multiplier is 5
- (D) The MPC is 0.9 and the multiplier is 10

19. The most appropriate monetary policy during a period of declining economic activity would be

- (A) Purchases of government securities by the Reserve Bank from the financial system
- (B) Increasing payments to social security recipients
- (C) Sales of government securities by the Reserve Bank to the financial system
- (D) Reducing rates of income tax

20. How would the construction of a supersonic rail link by a French company between Sydney and Canberra be recorded in Australia's balance of payments?

- (A) As a debit on the current account
- (B) As a credit on the current account
- (C) As a debit on the capital and financial account
- (D) As a credit on the capital and financial account

Question 21 (continued)

Marks

Section II

Total marks (40)

Attempt questions 21 – 24

Allow about 1 hour and 15 minutes for this section

Answer the questions in the spaces provided

Question 21 (10 marks)

Marks

This table gives selected economic data for a country

Year	% change in real output on previous year	Consumer Price Index	Employed persons (millions)	Unemployed persons (millions)
1	5.2	11	8.5	0.5
2	4.9	115	8.2	0.7
3	2.5	108	9.0	1.0
4	2.1	105	7.5	1.5
5	1.8	109	7.4	1.6

Using the table:

- (a) Calculate the unemployment rate in Year 3.

1

- (b) Calculate the inflation rate in Year 5.

1

Question 21 continues on page 9

Question 21 (continued)

Marks

- (c) With reference to the table (above) explain TWO pieces of evidence that indicate a decline in economic activity between Year 2 and Year 3.

2

- (d) Explain how TWO macroeconomic and ONE microeconomic policies could be used to promote economic recovery in this economy.

6

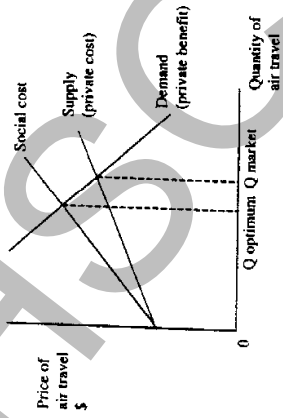
End of Question 21

STUDENT NUMBER/NAME:

Question 22 (10 marks)

Marks

The diagram below illustrates the market for air travel at Sydney Airport.



Referring to the diagram above and using your own knowledge:

- (a) Explain why there is a divergence between the private and social cost of air travel. 2

Air travel has impact of environment
negative production effects & quality of life

- (b) Define the term 'negative externality'. 1

.....

- (c) State and explain TWO negative externalities that may arise from air traffic and affect residents in suburbs around Sydney Airport. 2

.....

Question 22 continues on page 11

STUDENT NUMBER/NAME:

Question 22 (continued)

Marks

- (d) Select TWO measures that the government could impose to reduce the impact of externalities caused by air traffic on residents around Sydney Airport. Explain how these measures could improve residents' quality of life. 5

- taxation
- public control devices etc

End of Question 22

STUDENT NUMBER/NAME:

Question 23 (10 marks)

Marks

The stimulus material below provides information on Australia's balance of payments and the trend towards increasing globalisation of economic activity.

Balance of Payments for Australia 1998 – 2000 (\$m)		
	1998-99	1999-2000
Goods Credits	\$85,700	\$ 97,476
Goods Debits	-\$98,600	-\$110,807
Net Services	\$ 2,100	\$ 1,849
Income	-\$17,500	-\$ 18,591
Current Transfers	\$ 100	\$ 94
Balance on Current Account	-\$32,400	-\$ 33,677
Capital Account	\$ 1,200	\$ 1,119
Financial Account	\$30,500	\$ 33,099
Balance on Capital and Financial Accounts	\$31,700	\$ 34,218
Net Errors and Omissions	\$ 700	-\$ 541

Source: ABS Catalogue 1350-0 (July 2001)

The process of a globalisation accelerated in the 1990s with exceptional growth in world exports, direct and portfolio investment. To reap the benefits of globalisation, countries need to liberalise their trade relationships and adopt new technologies.

Source: World Bank (1999), *Human Development Report*

- (a) Define the term 'balance of payments'.

1

- (b) Calculate the goods balance in the current account in 1999-2000.

1

Question 23 continues on page 13

STUDENT NUMBER/NAME:

Question 23 (continued)

Marks

- (c) Using data from the table explain TWO factors that contributed to Australia's large current account deficit in 1998-99 and 1999-2000.

2

- (d) Discuss THREE economic effects of Australia's ongoing current account deficit in the balance of payments.

3

- (e) Explain TWO policies that the Australian government has used to liberalise its trade and participate in the process of globalisation.

3

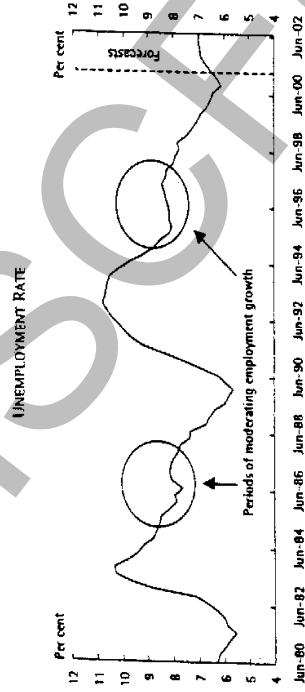
End of Question 23

STUDENT NUMBER/NAME:

Question 24 (10 marks)

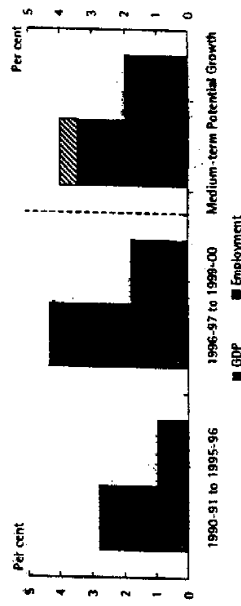
Marks

The stimulus material below provides information on the unemployment rate and employment growth in Australia.



Source: Budget Overview 2001-02

PROLONGING GROWTH AND INCREASING EMPLOYMENT



Source: Budget Overview 2001-02

Since March 1996 the number of people employed has risen by around 824,000 or 9.9%. In the same period the unemployment rate fell from 8.2% to a decade low of 6% in September 2000, before rising to 6.8% in April 2001.

Source: Budget Overview 2000-01

- (a) Calculate the forecast unemployment rate for June 2002.

1

Question 24 continues on page 15

STUDENT NUMBER/NAME:

Question 24 (continued)

Marks

- (b) Explain TWO separate causes of unemployment in Australia.

2

- (c) Outline ONE economic and ONE social cost of unemployment in Australia.

2

- (d) Evaluate the effectiveness of macroeconomic policies and labour market reforms in reducing Australia's rate of unemployment.

5

End of Question 24

Question 25 (continued)

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. Extra writing booklets are available.

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

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

Question 25 (20 marks)

Discuss the role of fiscal policy and monetary policy in Australia and assess their effectiveness in achieving the government's current economic objectives.

The Australian economy has enjoyed a record period of sustained strong economic growth with low inflation and falling unemployment over recent years. Following a slowdown in economic growth in the second half of 2000, growth is set to rebound during 2001-02.

Source: Budget Papers 2000-2001

Statement by the governor, Mr Ian MacFarlane, on monetary policy 04/04/01

Following a decision taken by the Board at a meeting yesterday, the Bank will be operating in the money market this morning to reduce the cash rate by a further 50 basis points to 5.0 per cent.

The most recent information suggests that the trend towards weaker international economic conditions has continued and is being led by the United States, where business and consumer conditions has weakened noticeably against the background of a rapidly falling share market.

Question 25 continues on page 17

A key strength of the medium-term fiscal strategy is that it allows fiscal policy to respond to short-term fluctuations in economic activity while providing an anchor to ensure that fiscal discipline is maintained over time. In the present structure of a temporary slowdown in economic growth, an easing in the fiscal position is appropriate as it helps to support demand growth in the economy.

Source: 2001-02 Budget Paper No.1, 1.9

Selected economic Data 1999-2002			
	Outcomes 1999-2000	Estimates 2000-2001	Forecasts 2001-02
GDP	4.3%	2.0%	3.25%
CPI	3.2%	5.75%	2.0%
Unemployment Rate	6.6%	6.25%	7.0%
CAD	-\$33.7	-\$20.5	-\$20.00

Source: Budget Overview 2001-02

End of Question 25

OR

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Question 26 (20 marks)

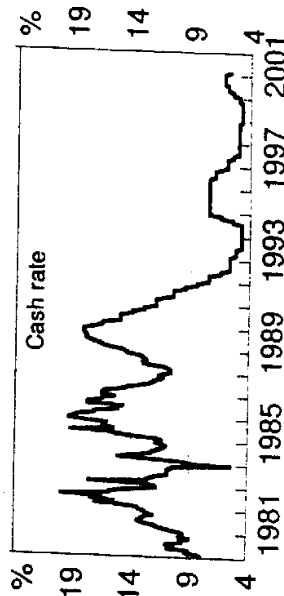
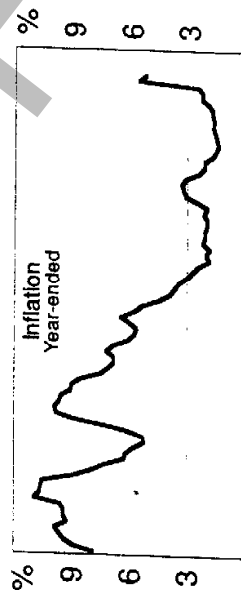
Evaluate the effectiveness of Australian government policies (both macroeconomic and microeconomic) designed to control inflation.

Inflation has been affected by one-off factors in 2000-01, including the one-off effect of the introduction of *The New Tax System* and higher world oil and domestic petrol prices. The Consumer Price Index is expected to increase by 5.75% through the year to the June quarter 2001.

Source: Budget Overview 2001-02

The key policies to control inflationary expectations in Australia are the use of monetary policy to achieve inflation targets and the spread of labour market and other structural reforms to enhance productivity and strengthen competitive pressures in markets.

Source: Reserve Bank (2001), *Bulletin*, January



Source: Reserve Bank (2001), *Bulletin*, January

End of Question 24

STUDENT NUMBER/NAME:

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. Extra writing booklets are available.

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

Question 27 (20 marks)

Discuss the role of the global economy and the WTO in influencing Australian trade and financial flows and Australian trade policy.

OR

Question 28 (20 marks)

Describe the nature of the global economy and evaluate the impact of globalisation on the development of an economy other than Australia.

End of paper