



2001
TRIAL HIGHER SCHOOL CERTIFICATE

Economics

General Instructions

- Reading time – 5 minutes
- Working time – 3 hours
- Write using blue or black pen
- Board-approved calculators may be used
- Write your Student Number at the top of each answer page

Section I

Pages 2-9

Total marks (20)

- Attempt Questions 1 – 20
- Allow about 35 minutes for this section

Section II

Pages 10- 18

Total marks (40)

- Attempt Questions 21 – 24
- Allow about 1 hour and 15 minutes for this section

Section III

Pages 19 - 20

Total marks (20)

- Attempt either Question 25 or Question 26
- Allow about 35 minutes for this section

Section IV

Page 21

Total marks (20)

- Attempt either Question 27 or Question 28
- Allow about 35 minutes for this section

93½%

Well done

19

39½
40

10 + 10 + 9½ + 10

16½

18½

Total marks (20)

Allow about 35 minutes for this section

Select the alternative A, B, C or D that best answers the question. Fill in the response circle completely.

A ○ **B** ● **C** ○ **D** ○

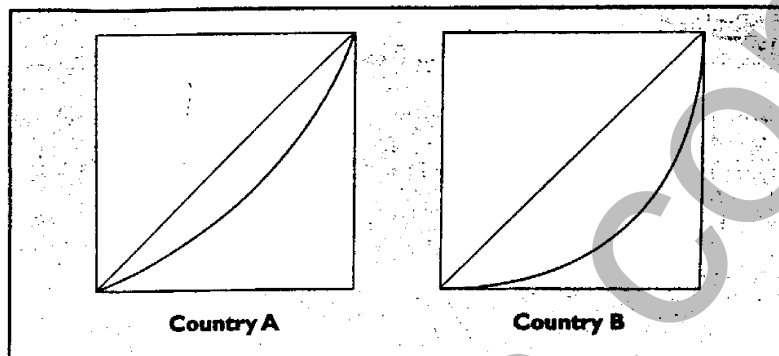
A ○ B ● C ○ D ○

A  **B**  **C**  **D** 

correct 

1. What is the likely effect of a sustained program of tariff reductions by the government over a period of 5 years?
 - (A) structural unemployment
 - (B) cyclical unemployment
 - (C) seasonal unemployment
 - (D) hard-core unemployment
2. Which of the following will occur when there is large scale selling of Commonwealth Government securities by the Reserve Bank to authorized money market dealers?
 - (A) reduce 'cash' in the market and raise short term interest rates
 - (B) reduce 'cash' in the market and lower short term interest rates
 - (C) increase 'cash' in the market and lower short term interest rates
 - (D) increase 'cash' in the market and raise short term interest rates
3. Which of the following is an example of Fiscal Policy?
 - (A) all government policies designed to promote full employment
 - (B) government policies aimed at influencing the demand for and supply of money
 - (C) the use of government revenue and expenditure to regulate aggregate demand in the economy
 - (D) the use of government powers to manage the exchange rate
4. Which of the following will cause the Australian Labour force to increase?
 - (A) school retention rates increasing
 - (B) the labour force participation rate increasing
 - (C) the number of officially unemployed people declining
 - (D) those structurally unemployed are retrained
5. If there was an injection of \$5 million into their Australian economy, given an MPC of 0.9, what would be the increase in national income?
 - (A) \$4.5 million
 - (B) \$5 million
 - (C) \$45 million
 - (D) \$50 million

6. The diagrams below show the line of absolute equality, and the Lorenz Curve for two countries.



What is evident from the diagrams?

- (A) the Gini co-efficient would be higher in Country A than Country B
- (B) income is more unevenly distributed in Country A than Country B
- (C) Country A is more likely to be a developed country, and Country B is more likely to be a developing country
- (D) it is more likely that Country A would be receiving aid from Country B

Question 7 relates to the following data. It shows the exchange rates for the Australian dollar against the US Dollar and the Japanese Yen.

	22 December	24 December
US Dollar	1 = 0.54	1 = 0.57
Japanese Yen	1 = 65	1 = 62

Which of the statements applies to December 24?

- (A) the Australian dollar has appreciated against the Yen
- (B) Australian exporters to Japan will face lower demand for their goods
- (C) Australian tourists to the US will be able to purchase more \$US with their Australian currency
- (D) Japanese products will be cheaper for Australians to buy

8. What does Gross World Product measure?
- (A) the change in the volume of world trade
 - (B) the quality of life of the people in the world
 - (C) the value of the world's wealth
 - (D) the value of final goods and services produced in the world

9. Question 9 is based on the following information

	(\$MILLION)
Balance on Merchandise Trade	250
Net Services	-3000
Net Income and Transfers	-8500
Capital Transactions	500
Financial Transactions	10750

What is the balance of payments on current account for this nation?

- (A) \$11,250 million debit
 - (B) \$11,250 million credit
 - (C) \$11,750 million credit
 - (D) \$11,750 million debit
10. Which of the following statements is appropriate if $S + T + M$ is less than $I + G + X$, in the short run?
- (A) the Federal Budget is in surplus
 - (B) unemployment will result
 - (C) stocks will decrease
 - (D) the economy will contract

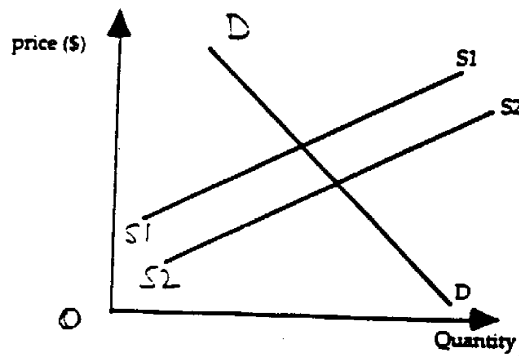
Questions 11 and 12 are based on the following Table.

YEAR	GDP at CURRENT PRICES (\$ billion)	PRICE INDEX NUMBER (Base Year = Year 1)
1	400	100
2	550	110
3	630	121

11. What is the Real GDP for Year 2 for this nation?
- (A) \$400 billion
(B) \$500 billion
(C) \$550 billion
(D) \$605 billion
12. What is the rate of inflation in Year 3?
- (A) 10%
(B) 11%
(C) 21%
(D) 121%
13. Which one of the following most likely indicates a trend towards greater globalisation?
- (A) increases in the growth rates of developing economies
(B) increases in the trade barriers between countries
(C) increases in the volatility of country's exchange rates
(D) increases in the value of global trade as a proportion of total output
14. Which of the following decreases the level of protection in Australia?
- (A) increase in the size of existing quotas for imports
(B) decrease in the size of existing quotas for imports
(C) increased tariffs
(D) increased subsidies for local industries
15. Which one of the following statements about externalities is correct?
- (A) externalities arise as a result of free riders
(B) externalities are solved by the operation of the price mechanism
(C) externalities give rise to non excludable, non rival public goods
(D) externalities are caused by market failure

16. Which of the following are features of most developing countries?
- (A) low levels of foreign debt, low levels of capital accumulation, high per capita income
 - (B) high levels of capital accumulation, high levels of foreign debt, low per capita income
 - (C) low levels of domestic savings, low levels of capital accumulation, high levels of foreign debt
 - (D) low per capita income, low levels of domestic savings, low levels of foreign debt
17. What is the main purpose of the World Trade Organisation (WTO)?
- (A) to measure the quality of life in individual countries
 - (B) to stabilise balance of payment problems in nations
 - (C) to provide loans to developing nations
 - (D) to promote free trade in the global economy
18. What could be the effect of a rise in real interest rates in Australia in the short term? (ceteris paribus)
- (A) increased levels of overseas investment in Australia resulting in an appreciation of the Australian dollar
 - (B) increased levels of overseas investment in Australia resulting in a depreciation of the Australian dollar
 - (C) decreased levels of overseas investment in Australia resulting in an appreciation of the Australian dollar
 - (D) have no effect on the levels of overseas investment in Australia or the exchange rate
19. Which of the following would occur if Australia's inflation rate fell below our trading partners?
- (A) our trade balance would probably improve and the \$A would depreciate
 - (B) our trade balance would probably deteriorate and the \$A would appreciate
 - (C) our trade balance would probably improve and the \$A would appreciate
 - (D) our trade balance would probably deteriorate and the \$A would depreciate

20. The following diagram represents the market for a good



If the government were to cease payment of an \$18 subsidy to manufacturers, *ceteris paribus*, the new price of the good would be

- (A) unchanged
- (B) at least \$18 higher than before
- (C) exactly \$18 higher
- (D) less than \$18 higher than before

Student number_

Section II

Total marks (40)

Attempt Questions 21-24

Allow about 1 hour and 15 minutes for this section

Answer the question in the spaces provided

Question 21(10 marks)

Marks

(a) Define the term globalization.

2

2

Globalisation, increase in integration of world economies characterised by increased movement of labour, technology, trade, investment, financial flows between economies.

Another aspect of Globalisation is the interlinking of governments, governments have less power to legislate economic policies without regard to other economies. Refer to the pie charts on p 12 to answer questions (b) below

(b) Explain the direction and composition of Australia's trade in 2001

4

4

The direction of Australia's trade has changed since 1950s from the UK being our main trading partner because

the UK had joined the European Union, which discriminated against non-European Union countries such as Australia hence Australia shifted the direction of trade to Asian countries, in Fig 3 - they now make up 39.8% of our exports in contrast to the European Union who only and to ASEAN countries which represent make up 13.5% of our exports.

The composition of Australia's exports remain dominated by mining which represents 35% of exports because Australia is a country well endowed with natural resources, while our imports tend to be dominated by Intermediate (45%) capital goods and consumer goods, because Australia does not have a comparative advantage in these goods, so import them instead, thus Australia's import markets are to the USA and Asian countries who produce good we do not have

- (c) Assess the impact of one international organization on the global economy.

4

The world trade organisation^(WTO) was formed in 1995
~~is~~ formerly known as GATT (General Agreement on
tariffs & trade). The WTO's aim has been to liberalise
trade in the world, to some extent it has
been highly influential in the liberalisation
of certain trading sectors, but still has failed
to liberalise free trade in regards to agricultural
trade, as the protection levels of agriculture are
still as high as their 1980s level, if not higher.
The WTO has been criticised as being highly
biased and dominated by rich and powerful
countries such as the USA, thus looking
out for its interests rather than of other
~~small~~ smaller countries, one of the impacts is
that it has earned the enmity of many
anti-globalisation protestors. ~~because they~~
~~believe~~

✓

Figure 1: The Sectoral Composition of Australia's Exports of Goods and Services in 2001

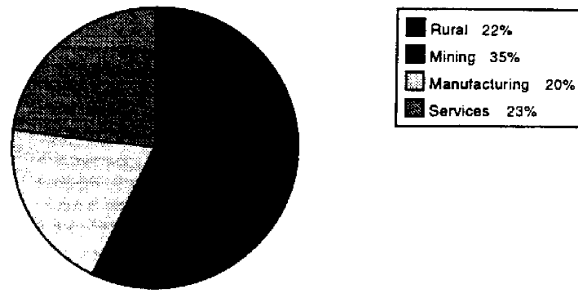


Figure 2: The Composition of Australia's Imports of Goods in 2001

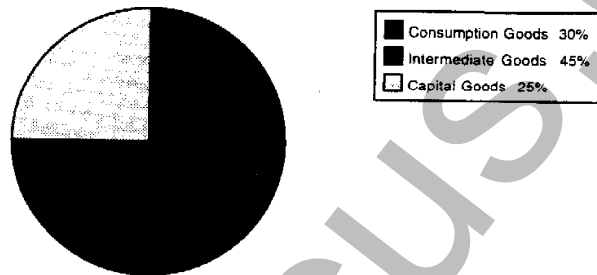


Figure 3: Major Australian Export Markets in 2001

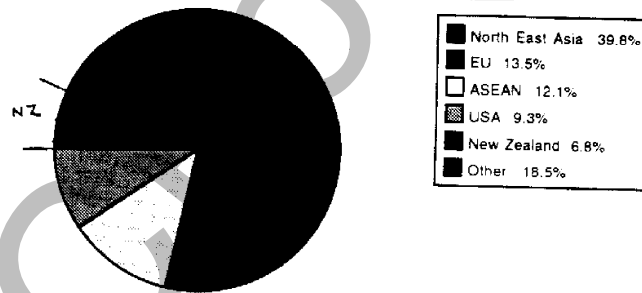
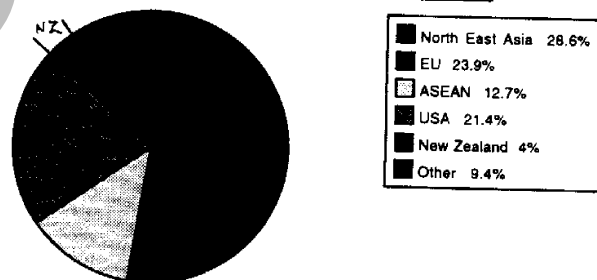


Figure 4: The Major Sources of Australia's Imports in 2001



Question 22 (10 marks)

Marks

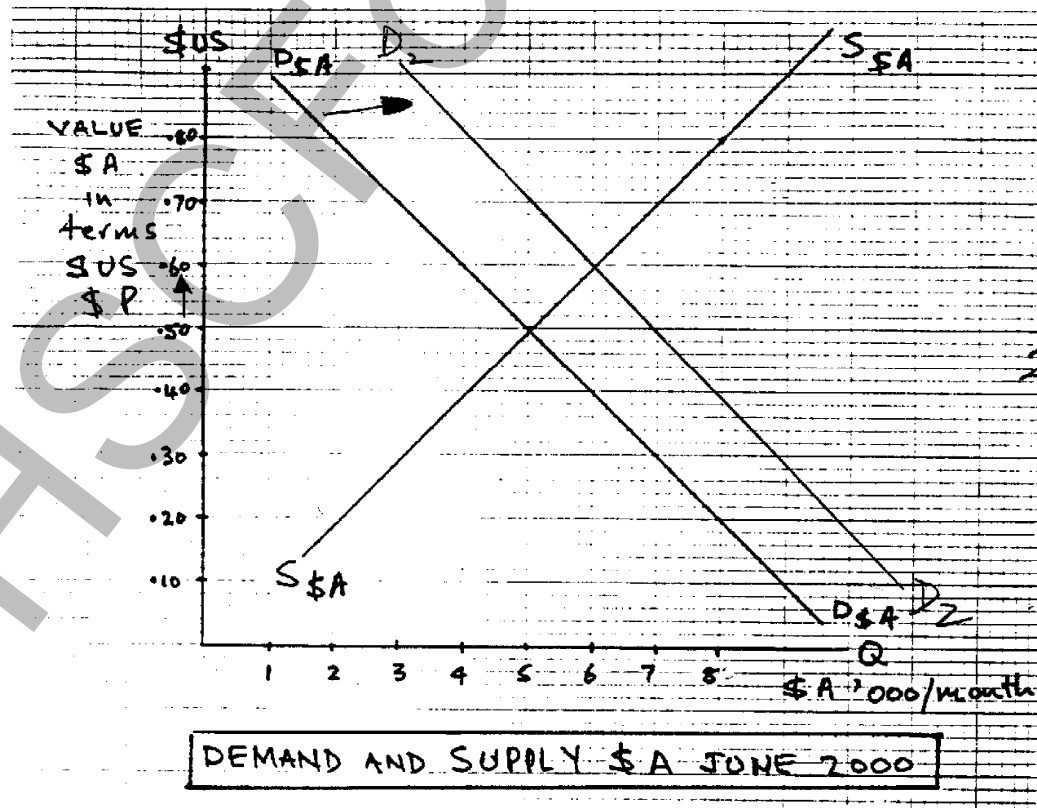
- (a) Outline how Australia's exchange rate is determined. 2

Australia's exchange rate is determined by a floating exchange rate where ~~the~~ the value of Australia's currency ^{in terms} ~~one~~ of another (ie exchange rate) are determined by the forces of supply and demand

- (b) Explain the effect of an increase in the demand for Australia's exports on the value of the \$A 2

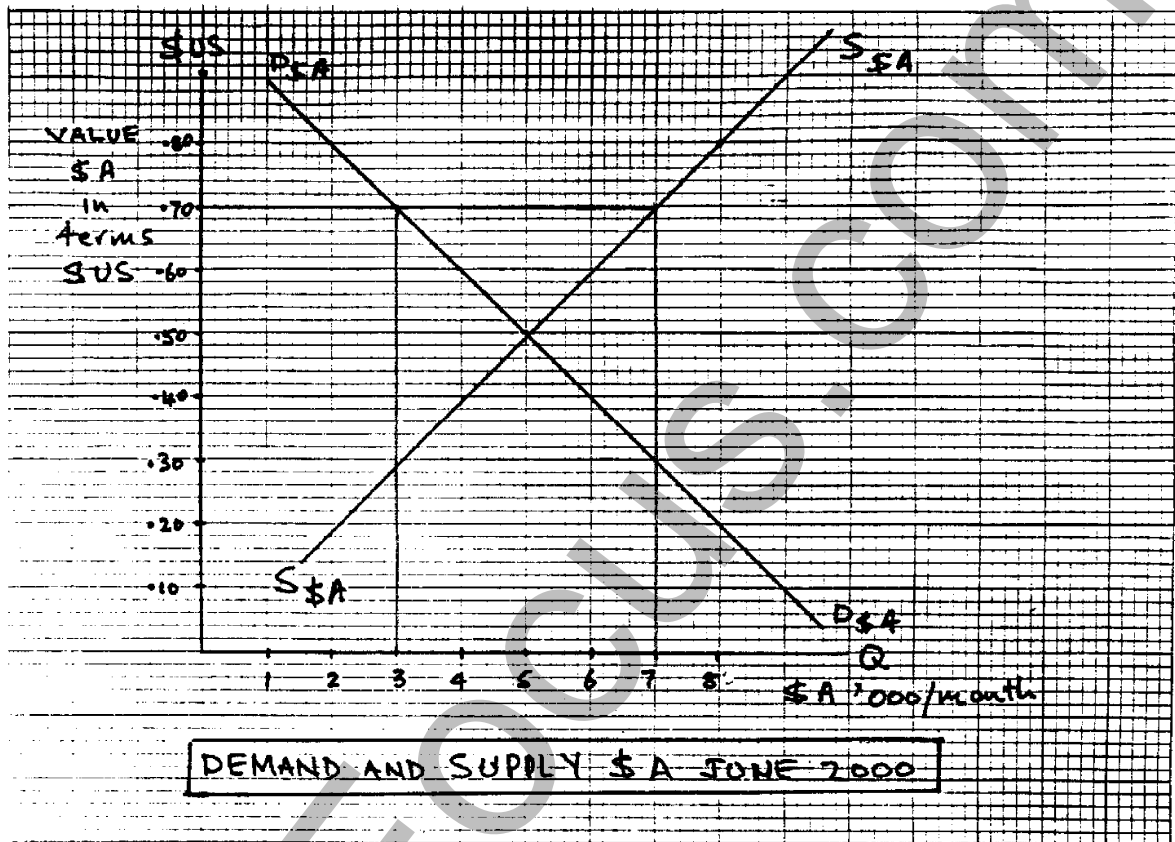
An increase in demand for Australian exports indirectly leads to an increase in demand for Australian currency, because exporters like to be paid in their own currency, this increase in demand for \$AUD leads to an appreciation - rise in value of the \$AUD.

- (c) Demonstrate the effect explained in (b) above on the diagram below 2



- (d) Using the diagram below explain the outcome if the exchange rate were fixed at \$0.70 US

4



* price floor

If the exchange rate were fixed above the equilibrium level of $\$1\text{AUD} = \0.50US , at $\$1\text{AUD} = \0.70US , the quantity demanded by the market would be at $\$0.70\text{US}$, $\$3000\text{AUD/month}$ while the supply would be at $\$7000\text{AUD/month}$, there would be a surplus of $\$4000\text{AUD/month}$ which the government would have to buy back, by selling its foreign reserves to keep the level of exchange rate at $\$0.70\text{US}$.

Question 23 (10 marks)

Marks

Economic Indicators for Economy X

	Labourforce Persons	Unemployed Persons	Unemployment Rate %	Real GDP % change	Inflation %
1992-93	8,574,400	940,400	11.0	3.7	1.0
1993-94	8,696,000	915,500	10.5	4.1	1.8
1994-95	8,886,300	793,700	8.9	4.5	4.2
1995-96	9,065,500	764,300	8.4	3.8	1.3
1996-97	9,173,100	792,400	8.6	4.8	0.1
1997-98	9,260,600	764,200	8.3	4.8	1.2
1998-99	9,399,000	718,200	7.6	4.3	2.4
1999-00	9,577,900	661,400	6.9		

- (a) Calculate the rate of unemployment in 1994 -95. (record your formula and show your calculation)

$$\begin{aligned} \text{Unemployment Rate} &= \frac{\text{unemployed}^2}{\text{labourforce}} \times 100\% \\ &= \frac{793\,700}{8\,886\,300} \times 100\% \\ &= 8.9317\ldots\% \quad 2 \end{aligned}$$

- (b) Describe the relationship between the rate of unemployment and the changes in the real GDP between 1992 - 93 and 1996 - 97. 2

Between 1992-93 and 1996-97, the relationship displayed is ~~as the real GDP increases~~ ^{the real GDP increases} ~~the unemployment rate decreases~~ 2
there seems to be a decrease in unemployment.
In the table 1992-93 the unemployment rate was 11% with 3.7% real GDP, while in 1996-97 the unemployment figure dropped to 8.6% and the % change in real GDP was 3.8%.

- (c) Outline one advantage and one disadvantage of a sustained period of low inflation on an economy.

^{1 1/2}
~~Advantage & Disadvantage~~ ² how inflation leads to increase in living standards for individuals because they ~~price~~ have greater purchasing power for material goods. Though low inflation is generally traded off ~~off~~ with economic growth. One disadvantage is perhaps lower levels of economic growth. more detail

- (d) Assess the economic and social problems created by high levels of unemployment.

⁴ ⁴
Unemployment is an opportunity cost to the government, as ~~more~~ ^{the} people out of work represent a loss in potential production. Unemployment for the government represents a decrease in income tax revenue for the government and increase expenditure for ~~for~~ welfare payments. Higher levels of unemployment can lead to a lower living standard for an individual, ~~since they lose out on~~ ^{decrease} disposable therefore consuming less material goods. There are also social factors that arise from unemployment such as increased income inequality as lower income earners are more likely to be unemployed than high income earners, marriage breakdown, homelessness and poverty. For firms, this can mean a decrease in production, hence less profits as ~~so~~ many people are unemployed and do not have enough disposable income to consume.

Question 24 (10 marks)

(a) Explain the term Gini coefficient

2

Gini coefficient is a quantitative measure of inequality, the closer to 1 the greater the inequality and the closer to 0 the greater the equality.

Using the table below answer question (b)

Average Hourly Earnings Australia 1994

ABS Cat 6302

Industry	Males (\$ per hour)	Females (\$ per hour)	Industry juniors (\$ per hour)
Mining	27.18	19.91	14.76
Manufacturing	16.51	13.67	7.64
Construction	16.96	12.52	8.38
Retail Trade	13.18	12.23	7.34
Finance and Business	19.1	14.88	8.28
Personal and Other	14.74	13.42	6.59
Average	17.22	15.04	7.61

(b) Using the above table account for the variation of income according to gender and age

4

4

In terms of age, industry juniors earn less than men and women, \$14.76 in mining while men and women earn significantly higher \$27.18^{hr}, \$19.91^{hr}, this is because they are younger and tend to have less experience than older generations. In terms of gender, men on the whole earn more \$19.10/hr as opposed to women \$14.88, - in finance and business because men generally

are more ~~likely~~ likely to get promoted than women,
women ~~can~~ be discriminated because of their
sex, and also because, it is just ~~to~~ now that
more educational opportunities have opened up ^{for women}
thus ~~now~~ it is only the younger generations
who are starting to reap the benefits of a
better education, while older generations were
far more restricted in terms of educational opportunity
thus restricted earning capacity.

- (c) Examine 2 costs and 2 benefits of Australia's current distribution of income.

Cost 1

Breeds social division in society, ~~and~~ and
social costs such as poverty, marriage breakdown. ✓

Cost 2

~~Can~~ Can mean decrease productivity rates because
people become disillusioned and depressed and
thus do not work to their full capacity. ✓

Benefit 1

The unequal distribution of income provides
incentives for people to work harder ^{increases} ~~try to earn~~
~~more~~, for ~~entrepreneurs~~ rates of productivity and
for entrepreneurs, increase risk taking and thus ~~more~~ ^{profit} ✓

Benefit 2 - see profit

Those on high incomes tend to save more and
invest in capital accumulation, which will
lead to greater growth for our nation, ~~as it leads to greater~~ ✓

Section III

Total marks (20)

Attempt either Question 25 or Question 26

Allow about 35 minutes for this section

Answer the question on a separate page

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

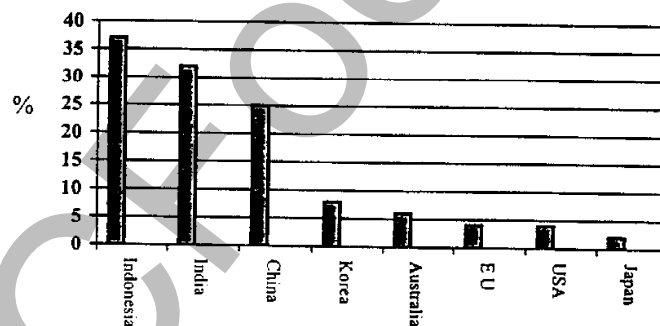
- use your knowledge and the economic information provided
- apply economic terms, concepts, relationships and theory
- present a sustained, logical and well-structured answer to the question

EITHER

Question 25 (20 marks)

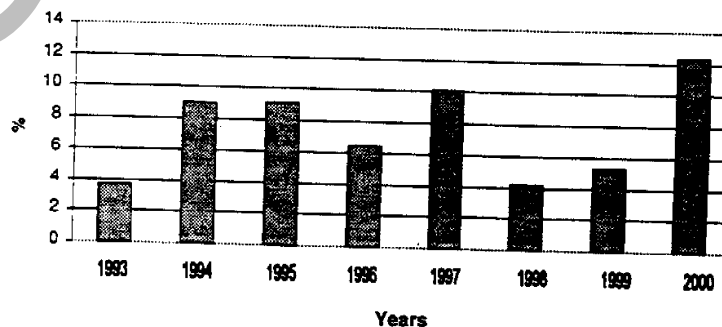
Discuss the effects of protectionist policies on the global economy.

**The level of protection in manufacturing industries
in various countries**



Graph 2. World Trade in Goods and Services

Annual Percentage Growth in Trade Volumes

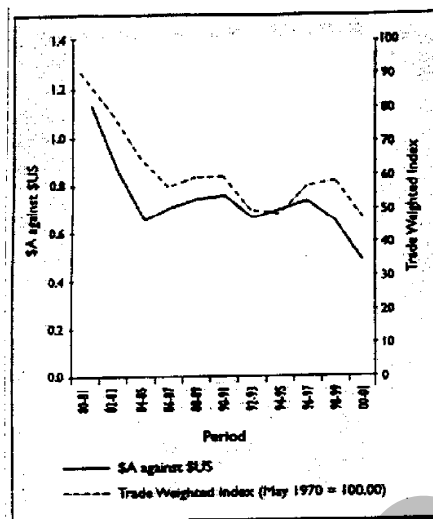


Source: IMF, *World Economic Outlook*, 2001.

OR

Question 26 (20 marks)

Analyse the impact of movements in the exchange rate on the Australian economy and the Balance of Payment.



Value of \$A against \$US and Trade Weighted Index

-Leading Edge, Economics
Update Feb. 2001

Exchange rate

"The fundamentals of the Australian economy don't warrant a dollar as low as it is at the present time... [But] you have got to remember that an exchange rate decline is actually expansionary for the economy."

- Treasurer Peter Costello 15 March 2001

Key Australian Indicators

	Latest	Date	12 mths ago
Economics growth	2.1%	Dec 00	5.4%
Inflation (CPI)	6.0%	Mar 01	2.8%
Unemployment	6.8%	Mar 01	6.8%
Ave. weekly earnings	4.9%	Nov 00	3.0%
Participation rate	63.5%	Mar 01	63.6%
Wage cost index	+3.4%	Dec 00	+3.0%
Household savings	2.6%	Dec 00	2.0%
RBA cash rate	5.5%	Mar 01	5.75%

External accounts

Current account	-\$33.9bn	1999-00	-\$33.7bn
Exports	\$142.0bn	2000	\$113.7bn
Export growth	+21.9%	2000	-0.1%
Imports	\$149.8bn	2000	\$130.2bn
Imports growth	+13.9%	2000	+4.3%
Net foreign debt	\$300bn	Dec 00	\$243bn
Foreign debt (%GDP)	46.6%	Dec 00	39.7%
Terms of trade	+4.9%	Dec 00	+5.0%
Trade Weighted Index	47.4	Mar 00	53.1

Changing Trade Patterns: Australian Exports

Destination	1990	2000
US/EU	25%	21%
Japan	26%	20%
ASEAN	11%	14%
Other East Asia	15%	22%
Rest of World	22%	22%

+ Forecasts from RBA 2001

Sources: ABS Catalogues 1350.0, 5206.0, 5301.0, 5625.0, 6202.0, 6301.0, 6401.0, Reserve Bank Bulletin

-Leading Edge, Economics
Update March 2001

Section IV

Total marks (20)

Attempt either Question 27 or Question 28

Allow about 35 minutes for this section

Answer the question on a new page

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)

Analyse the impact of globalisation on the level of economic growth and the standard of living in the global economy.

OR

Question 28 (20 marks)

Examine the impact of changes in the global economy on Australia's economic performance.