STUDENT NUMBER:______________________________

PYMBLE LADIES' COLLEGE
ALL' ULTIMO LAVORO
SYDNEY

2001

TRIAL HIGHER SCHOOL CERTIFICATE

Economics

Section 1
Answer Sheet

1	A	●	B	○	C	○	D	○
2	A	●	B	○	C	○	D	○
3	A	○	B	○	C	●	D	○
4	A	○	B	●	C	○	D	○
5	A	○	B	○	C	○	D	●
6	A	○	B	○	C	●	D	○
7	A	○	B	○	C	●	D	○
8	A	○	B	○	C	○	D	●
9	A	●	B	○	C	○	D	○
× 10	A	○	B	○	C	●	D	○
× 11	A	○	$\boxed{B}$	○	C	●	D	○
12	A	●	B	○	C	○	D	○
13	A	○	B	○	C	○	D	●
14	A	●	B	○	C	○	D	○
15	A	○	B	○	C	○	D	●
16	A	○	B	○	C	●	D	○
17	A	○	B	○	C	○	D	●
18	A	●	B	○	C	○	D	○
19	A	○	B	○	C	●	D	○
20	A	○	B	○	C	○	D	●

19

well done

Section III

16½

Q26.

The exchange rate is the value of the australian currency in terms of another value of foreign currency. The exchange rate can impact on the balance of payments and the Australian economy in various ways. The Balance of payments represents an economic record of Australias financial dealings ~~of~~ with the rest of the world in a certain amount of time. The Balance of Payments (BOP) ~~represents the~~ contains two accounts, one called the Current Account (C/A) which are make up of irreversible components such as income, and merchandise trade to the Capital and financial account (KAFA), which represents reversible components such as Capital and investment flows.

An appreciation in the exchange rate will cause the values of the Australian dollar to increase and this may have impacts on the BOP and the Australian economy.

In terms of exports, it may decrease the exports ~~coming into the~~ demand because the price of exports has increased with the increasing $AUD. This will make Australian exports ~~far less~~ less competitive on world markets. However one advantage of a higher dollar will be that inflation rate will be lower because of a high $AUD, imports become cheaper. In terms of Investment, a higher $AUD may lead to increased investment outflow because it now costs more to invest in Australia. This could have negative effects on firms who rely on foreign investment, it could mean decrease profits, leading to increased unemployment and a slow down in economic activity thus hindering growth.

~~The~~ The increased ~~ex~~ imports and the decreased exports due to an appreciating dollar may ~~be has~~ lead to a deteriorating balance of payments because imports may out weigh the exports and lead to a current account deficit (CAD) due to trade imbalances. A very high CAD can have negative consequences as it constrains economic growth and it can act as a speed limit on growth. ~~The~~ ~~The only this~~

But one positive impact an appreciating dollar has is also that it may in turn reduce a CAD and a ~~B~~ improve a deteriorating BOP because it ~~~~ lowers the foreign debt ~~and foreign servicing~~ because $AUD are now worth alot more.

A depreciation in the exchange rate will cause a decrease in the ~~~~ value of the Australian dollar, in respects to other currency. This may have positive and negative impacts on the Australian economy and the BOP.

In terms of exports, ~~a~~ the depreciation in the dollar will make the australian exporters far more internationally competitive as ~~$~~ it is far cheaper now to by Australian goods. But it will also cause the imports ~~B~~ cost to rise as ~~due~~ $AUD is worth less, causing increased inflation in the economy. It may have an expansionary effect ~~on~~ in the domestic situation, as exports are competitive ~~Investment flows in terms of the~~ this will mean greater employment opportunities for our people.

If the exports become very internationally competitive it ~~causes the~~ could have a positive effect by increasing the amount of exports and decreasing amount of imports ~~which would lead~~ (lower demand because of inflation) this would in effect give way to a more positive current account as exports out weigh the imports and an improving balance of payments figure.

But a low $AUD can also mean ~~that~~ an increase in foreign debt and servicing ratio because now our dollar is worth less it increases the amount of debt that we owe and could thus have a negative impact, ~~increasing~~ thus leading to a deteriorating CAD and ~~dete~~ deteriorating balance of pay-ments.

A low ~~$A~~ dollar may also in terms of investment lead to increased ~~inf~~ investment flows into the country because ~~of~~ the cost of investing into Australia has lowered with the lower value of the dollar. In fact, a lower dollar can have an expansionary impact on the economy because it increases investment thus allows our firms the funds to expand and increase their productive capacities, while also thus encouraging more employment opportunities for the domestic labour market.

These the movements in the exchange rate impact on the Australia economy and the Balance of payments in terms of ~~$~~ export, import, investment and financial flows, all of which also affect the balance of payments.

You MUST include graphs in this type of question

Plan

Q 26.

Impact of exchange rate movements on the australian economy and the BOP.

↑ XR - economy BOP
- exports
- imports
- inflation
- investment
- competitiveness
- TOT.

↓ XR

Section IV

18½

Q28

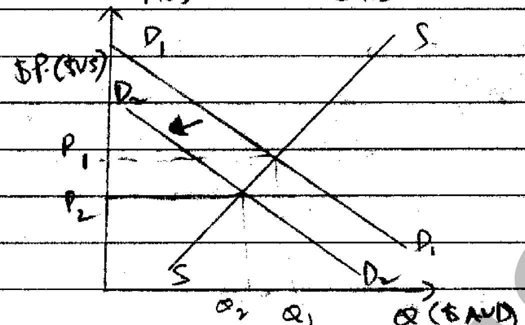
Globalisation is the integration of economies in one world economy, characterised by increased movem-ent of labour, technology, investment, financial and ~~Capital~~ trade flows in and between econ-omies. The integration of our economy into the world economy has had many impacts, especially of other influential economies impacting on our own. The 1997-98 Asian Economic Crisis has impacted on trade flows in many ways. The slowdown in economy such as the USA and Japan have had great impacts on our own economy. Also the relative strength of the US economy has affected our economic performance. Lastly, the protection-ist policies of some countries has affected the Australian economy.

The 1997-98 Asian economic crisis has had impacts on the Australian trade flows and Australian currency. ~~It is sig~~ The fall of the asian tigers because they are one of australia's main trading partners and represent [illegible] 51.9% of our export trade. Australia had felt the consequences of the fall of these countries into recession, as they demanded less of our goods because of recession and lack of business and consumer confidence in their countries. Australia had to find somewhere else to trade their exports because of lower than usual demand in the South East Asian countries, ~~to~~ Australia in reaction to the crisis had to shift its trade and find more partners to trade with in Europe. Not only this but the lack of demand of australian exports led to a decrease in the demand for our currency,

trade / financial flows

thus led to a decrease in the $AUD, a dep-reciation, Australia experiencing the lag effects in early 1999 with the $AUD at a $0.60US level.

Australian $AUD in terms of $US.



The diagram above demonstrates the ~~action~~ effect of the Asian economic crisis on Australia, the decrease in demand ~~from D1~~ of our exports, thus a decrease in demand of our currency led to a shift from D1 to D2, and thus a decrease in $P ($US) ~~in terms~~ in regard to $AUD from P1 to P2.

The slowdown in many influential economies such as the US ~~has~~ and the Japanese economy has impacted the Australian economy in various ways.

In terms of trade flows, Japan has been one of our declining partners, now representing as little as 12% of trade, the recession in Japan will cause a decrease in demand in our goods, as the Japanese business confidence is so low that even the Government had to lower their cash rate to 0%, Japan is experiencing ~~negative economic~~ minimal amount of economic growth so would not demand ~~our~~ resource and mineral exports as much anymore

Japan, has significant impacts thus on Australia's trade performance.

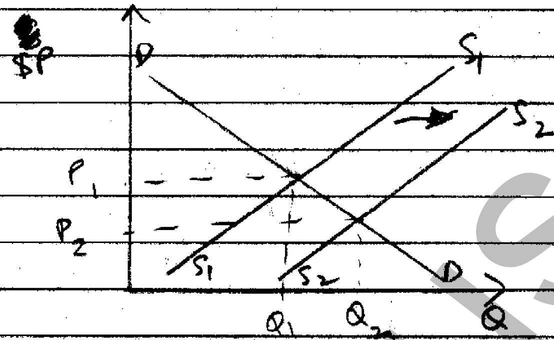
In terms of finincial flows Australia ~~is~~ has linked itself with various giants such as Japan and the USA. The effects of their slow down can have detrimental effects on our economy because they represent together 46% of the world's total ~~output~~ economic activity. Heavy investment in their economies can mean heavy losses if they fall into recession, which could lead to a recession in our economy and the problems that come with it, higher levels of unemployment, low levels of economic growth etc. Australia is experiencing low levels of growth of 1.1% (last march quarter) - as a result of slowing ~~world~~ world economic activity.

These trade and financial problems are compounded by the fact that Australia's trade is in mainly mining and rural exports represents 57% of total exports. As it is, these exports are already subject to the fluctuations in the world market, their ~~volatility would be increased by downward price spiral would~~, slowing economic growth would lead to ~~lower~~ even lower export revenue, hence an imbalance on trade of exports and imports and thus a deteriorating or worsening current account deficit. ~~B~~ This is mainly due to the fact that ~~a~~ Australia is involved in the manufacture of primary goods, simply transformed manufacture (STMs), ~~which would lead~~ the products being very price inelastic, worsening Australia's situation.

The relative strength of the US economy has still had impacts on our own economic performance, ~~in terms of trade~~ an untraditional affect unlike trade ~~and~~ of exports and imports, is its ~~s~~ impact on investment and financial flows. It is said that because of the relative US strength, australia ~~has~~ has 'come off the radar' because it is still perceived by the world as an 'old economy' while the US represents a 'new economy' in a technological boom. It seems that it ~~is not because of~~ strong world economies such as those of the US ~~are to~~ have taken in the incoming investment flows because ~~it seems as~~ ~~of they represent~~ of their perceived relative strength in relation to Australia - is in the eyes of investors.

Lastly the protectionist policies of countries has affected ~~the~~ Australia's economic performance. Many global ~~con~~ economies such as those of the USA still have very high levels of protection, ~~the~~ similar to their 1980s levels which hinder ~~to~~ Australia from making the profits it would have otherwise made if the American Government had not subsidised their ~~most~~ ~~of~~ farmers. It was estimated that in 2000 the american government had subsidised their farmers with up to payments of $44 bn dollars US. The american government also promises the ~~farmers~~ farmers a 77% in the level of subsidy, making America one of the most highly protectionist countries in the World. They deny Australian exporters a chance to export more and earn more profits, profits that could have benefitted and improved our ~~#~~ trade imbalance. ~~Of course America~~

The effect of a subsidy is shown below:



The affect of a subsidy grant given by the USA american government allows ~~the~~ a decrease in the production costs of american farmers, they are also able to increase their supply ~~thereby at~~ as seen ~~in~~ from the Shift of supply from S_1 to S_2, they thus become more competitive with a drop in price from P_1 to P_2 while then the difference in supply and demand is made up with the difference between Q_1 and Q_2 ~~for~~ by exporters.

Of course, America USA is not the only one to put protective barriers up. The European Union also has high barriers to trade for Australian exporters under the ~~Eu~~ Common Agricultural policy which also restricts Australian exporters and Australian trade.

Thus there are the impacts of the changes in the global economy in regard to Australia's economic performance. The Asian Economic Crisis forced Australia to find more trade partners, the slowdown in the US economy ~~has impacted on trade and financial flows~~ and the Japanese economy has impacted on Australia's trade and financial flows. The relative strength of the US economy has ~~led to that~~ also impacted the Australian economy. Lastly the ~~world~~ ~~world~~ ~~trade~~ world economies protection on agriculture has ~~affect~~ affected Australia significantly.

Section IV.

Q 28

Plan

- Asian Economic Crisis.

- ~~[illegible]~~ World ~~[illegible]~~ Economic Growth.

rural goods.

- US slow down

- Japanese slow down

- Protectionist policies?

- ~~US~~ US strength.