2002
Higher School Certificate
Trial Examination

Economics

Total marks - 100
Section I - Pages 2 – 8
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 15 minutes for this section

Section III - Pages 17 – 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

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

This paper MUST NOT be removed from the examination room

STUDENT NUMBER/NAME: ... ...

Section I

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

Select the alternative A, B, C or D that best answers the question and indicate your choice with a cross (X) in the appropriate space on the grid below.

	A	B	C	D
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1. Which one of the following best describes the overall objective of microeconomic reform?

    (A) To influence the level of aggregate demand
    (B) To influence the cost and availability of credit
    (C) To encourage sustainable growth
    (D) To encourage the efficient operation of markets

2. What type of unemployment best describes people who are working part-time but would work more hours if they were available?

    (A) Cyclical
    (B) Structural
    (C) Frictional
    (D) Hidden

3. The following table shows selected economic data for a nation.

	Year 1	Year 2
Gross Domestic Product (GDP) $ b	575	660
Consumer Price Index	100	110

    What is the real growth in GDP for this nation between Year 1 and Year 2?

   (A) $ 25 b
    (B) $ 85 b
    (C) $ 151 b
    (D) $ 550 b

4. What is the likely effect of a reduction in European Union farm subsidies on Australian farmers?

    (A) Increased export markets for Australian farmers
    (B) An increase in competition for Australian farmers
    (C) A reduction in productivity for European farmers
    (D) Increased export markets for European farmers

5. The following table shows the production possibilities for olives and wine in Spain and Portugal.

Country	Olive Production (tonnes)	Wine Production (litres)
Spain	10	10
Portugal	20	30

Which of the following does the table indicate?

(A) Spain has an absolute advantage in the production of both olives and wine
(B) Portugal has a comparative advantage in wine production only
(C) Spain has a comparative advantage in wine production only
(D) Portugal has a comparative advantage in the production of both olives and wine

6. Which of the following results are most likely to occur if the Reserve Bank increased short term interest rates?

(A) Aggregate demand would increase and the Australian dollar would depreciate
(B) Aggregate demand would increase and the Australian dollar would appreciate
(C) Aggregate demand would decrease and the Australian dollar would depreciate
(D) Aggregate demand would decrease and the Australian dollar would appreciate

7. The following diagram shows the demand for and supply of Australian dollars in the foreign exchange market.
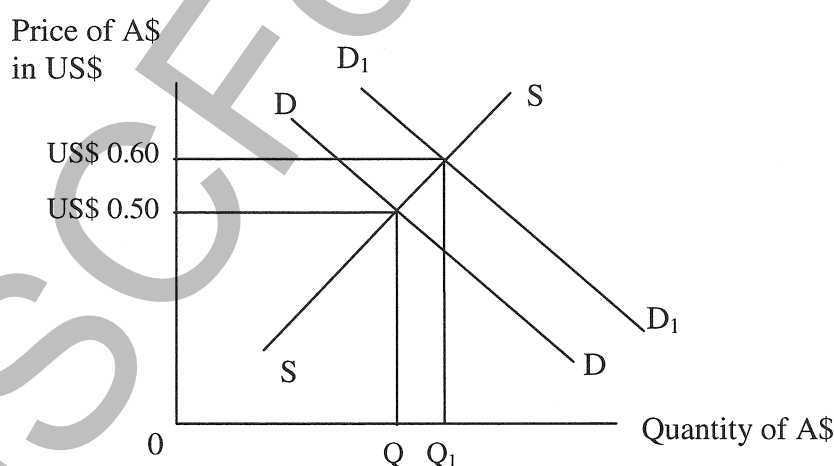
Which of the following is a likely effect of a rise in the price of A$1 from US$ 0.50 to US$ 0.60?

(A) Government subsidies to Australia farmers would fall
(B) Australian exports to the United States would be cheaper to purchase
(C) United States' goods would be cheaper for Australians to purchase
(D) Tourists from the United States to Australia would benefit

8. Which of the following best indicates the process of globalisation?

    (A) Barriers to international trade and investment are reduced
    (B) There is a sustained increase in international trade and investment
    (C) China joins the World Trade Organisation
    (D) The majority of countries adopt fixed exchange rates

9. The following diagram shows aggregate demand and aggregate supply curves for a country.
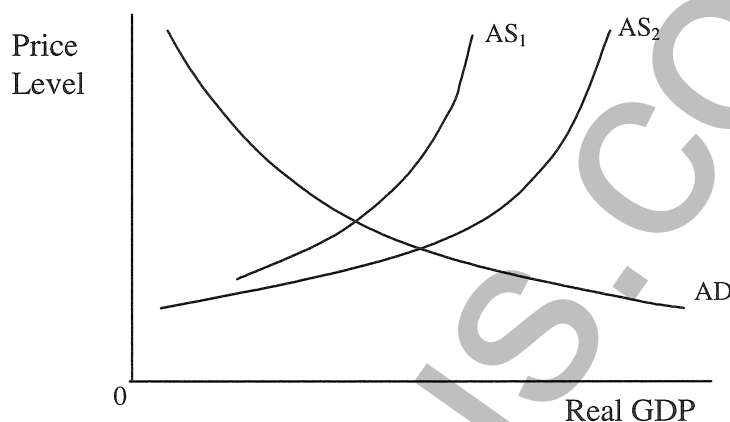
    What government economic policy could cause a shift of the aggregate supply curve from AS$_1$ to AS$_2$?

    (A) Contractionary fiscal policy
    (B) Expansionary fiscal policy
    (C) Microeconomic reform policy
    (D) Contractionary monetary policy

10. Which of the following are features of a public good?

    (A) Efficient and subsidised production by the market
    (B) Non rival and non excludable in consumption
    (C) Rival and excludable in consumption
    (D) Non rival but excludable in consumption

11. What is the impact of an import quota?

    (A) Reduces the price of the imported good
    (B) Disadvantages domestic producers of the good
    (C) Restricts the supply of imports into a country
    (D) Increases government revenue

12. The following table shows balance of payments statistics for a nation

Balance of Payments	
Current Account	$ m
Goods Credits	120,337
Goods Debits	
Net Services	561
Net Income	−19,571
Current Transfers	178
Current Account Balance	−18,686

What is the value of the goods balance?

(A)   −$ 120,191 m
(B) $ 240,528 m
(C) $ 146 m
(D) $ 18,686 m

13. Which of the following measures is likely to generate a more equal distribution of income among individuals in Australia?

(A)   The introduction of the goods and services tax (GST)
(B)   An increase in the top marginal rate of income tax
(C)   The removal of the income and wealth tests on welfare benefits
(D)   The removal of fringe benefits tax

14. What is an important outcome of economic development in developing countries?

(A)   Increases in living standards and per capita income
(B)   Economic growth and external debt
(C)   An increase in foreign aid from developed countries
(D)   A greater gap in technology with developed countries

15. The diagram below illustrates the labour market for unskilled workers
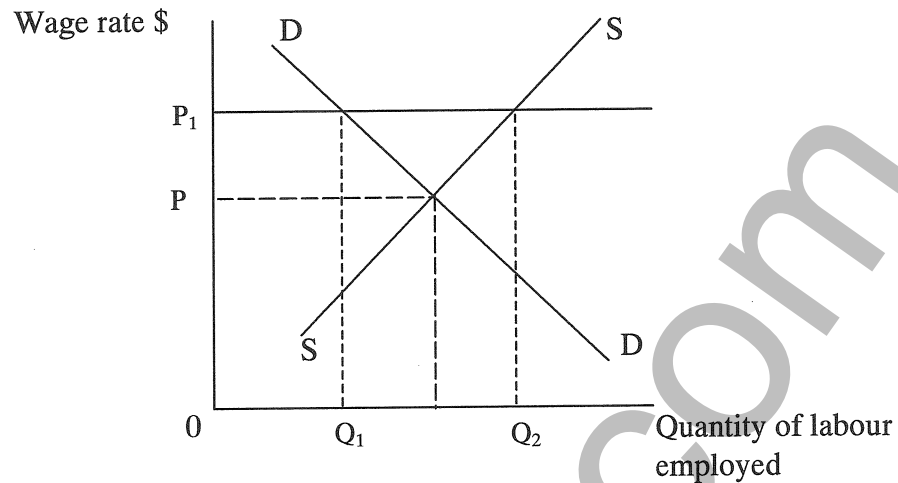
What is the major outcome of the setting of the minimum wage rate?

(A) A level of employment of $0Q$ workers
(B) A shortage of workers equal to Q_1Q_2
(C) Unemployed workers equal to Q_1Q_2
(D) A price ceiling equal to $0P_1$

16. In a closed economy with no government sector a community saves 0.4 of each dollar received. What is the value of the multiplier in such an economy?

(A) 4
(B) 0.4
(C) 2.5
(D) 1.6

17. Other things being equal, what factor is most likely to decrease the structural surplus of the Australian government's budget?

(A) An increase in unemployment benefits paid
(B) Lowering marginal rates of income
(C) The economy experiencing a downturn reducing income tax receipts
(D) A decrease in the value of the Australian dollar

18. What is a common source of cost inflation?

(A) Increases in consumption expenditure
(B) A rise in the general level of interest rates
(C) Increases in net government expenditure
(D) Increases in investment spending caused by higher business confidence

19. What effect would a booming economy have on automatic stabilisers?

(A) An increase in government expenditure on capital works
(B) A decrease in the level of portfolio investment
(C) A decrease in expenditure on transfer payments
(D) A decrease in income tax revenue

20. What is a social cost of the inequality in income distribution in Australia?

(A) Reduced national savings
(B) The disincentive effect on workers
(C) The relative poverty of various groups in society
(D) Lower consumption and utility levels

Section II

Total marks (40)
Attempt questions 21 – 24
Allow about 1 hour 15 minutes for this part

Answer the questions in the spaces provided

Question 21 (10 marks)   **Marks**

Examine the following table for a hypothetical economy and answer the following questions

National Income	Consumption $	Savings $	Investment
0	200	-200	40
200	320	-120	40
400	440	-40	40
600	560	40	40
800	680	120	40

(a) Calculate the equilibrium level of national income   1

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(b) Calculate the numerical value of the simple multiplier   1

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(c) Explain the effects on national income if total leakages are greater than total injections   3

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Question 21 (continued)

(d)   Explain TWO macroeconomic management tools the government can use in reducing fluctuations in the business cycle

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End of Question 21

Question 22 (10 marks)   **Marks**

The following table shows various data on the Australian labour market between May 1997 and May 2002.

	Civilian Population aged 15 and over '000	Labour Force	Participation Rate	Employed persons Part time '000	Employed persons Full time '000	Employed persons Total '000	Unemployed persons '000	Unemployment Rate (%)
May 1997	14532	9181	63.2	2144	6273	8417	764	8.3
May 1998	14745	9316	63.2	2230	6369	8599	717	7.7
May 1999	14963	9418		2300	6453	8754	665	7.1
May 2000	15155	9642	63.6	2368	6640	9008	633	6.6
May 2001	15390	9824	63.8	2484	6672	9156	668	6.8
May 2002	15606	9928	63.6	2584	6721	9305	623	

Source: Australian Bureau of Statistics (1997-02), Australian Economic Indicators.

(a)   What is meant by the labour force participation rate?   1

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(b)   What was the labour force participation rate for May 1999?   1

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(c)   State the formula for the unemployment rate   1

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(d)   What was the unemployment rate for May 2002?   1

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Question 22 (continued)   **Marks**

(e)   What was the trend in part time employment over 1999 – 02 and give TWO possible
      reasons for this trend?   **3**

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(f)   Suggest THREE factors that may have caused the change in the number of unemployed
      persons in Australia between May 1997 and May 2002.   **3**

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End of Question 22

Question 23 (10 marks)   **Marks**

The table below shows the distribution of gross income for Australia between 1981-82 and 1997-98.

	Income Shares (%)		
Quintile	**1981-82**	**1985-86**	**1997-98**
Lowest	4.9	4.8	3.8
2nd	9.9	9.1	9.0
3rd	16.7	15.3	15.0
4th	24.7	24.1	23.9
Highest	43.8	46.7	48.3
Total	100.0	100.0	100.0
	Gini Coefficient		
Total	0.40	0.43	0.44

Source: ABS (1999), Catalogue 6523.0

(a) Using evidence from the table above state the general trend that occurred in income distribution between 1981-82 and 1997-98   1

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(b) Discuss TWO economic or market reasons for rising income inequality in Australia between 1981 and 1998   2

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(c) Discuss ONE economic cost and ONE economic benefit of income inequality   2

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Question 23 (continued)   **Marks**

(d)   Analyse the effectiveness of TWO government policies to reduce income inequality in
       Australia.   **5**

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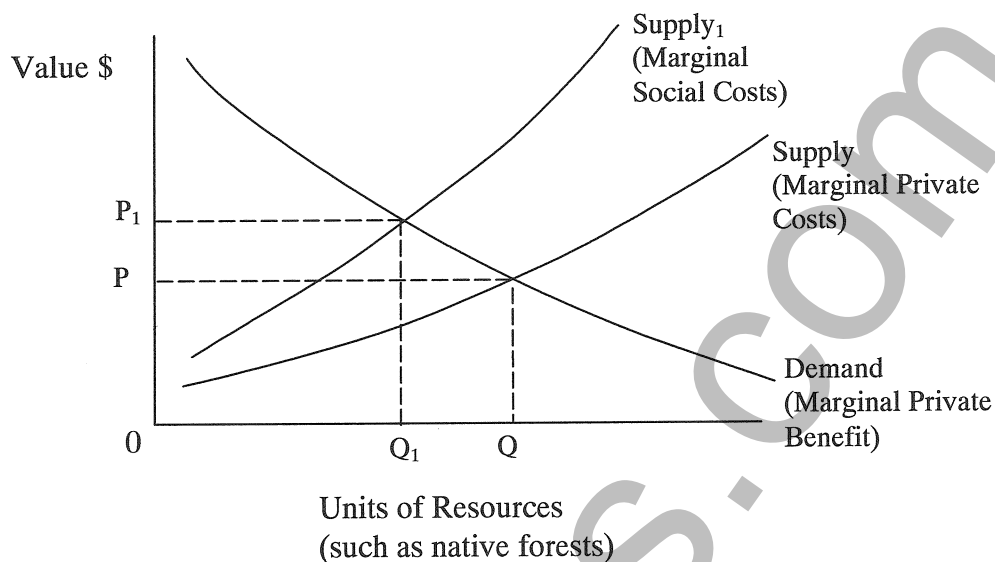
End of Question 23

Question 24 (10 marks)   **Marks**

The diagram below shows the supply and demand for a public good such as native forests.

Value $

P_1

P

0   Q_1 Q

Supply₁
(Marginal
Social Costs)

Supply
(Marginal Private
Costs)

Demand
(Marginal Private
Benefit)

Units of Resources
(such as native forests)

(a)   What is meant by social costs?   1

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(b)   Explain ONE environmental benefit of native forests being priced at P_1 instead of P in
the diagram   2

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(c)   Referring to the diagram, explain why the price mechanism fails to protect native
forests if their value is priced at P   2

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Question 24 continues on page 16

Question 24 (continued)   **Marks**

(d)   Analyse the effectiveness of TWO government policies to protect native forests   **5**

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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. 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 use of macroeconomic and microeconomic policies by the Australian Government to achieve full employment.

The Unemployment Rate in Australia 1981 – 2003 (f)

Source: Australian Bureau of Statistics, 2002, Catalogue 6202.0
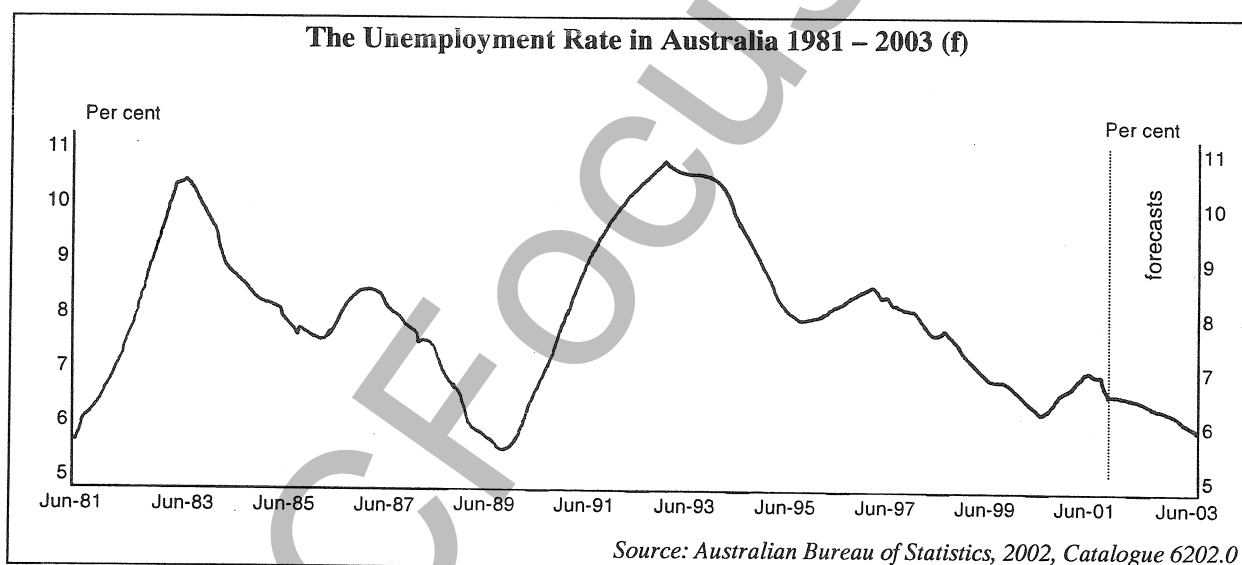
In line with this improved outlook for employment, the unemployment rate is expected to decline slightly over the forecast period, and to average around 6 per cent in 2002-03 as a whole and to be 6 per cent in the June quarter of 2003.

Provided that economic growth remains robust, an unemployment rate below 6 per cent is achievable over the medium term, although outcomes will be influenced by the pace and extent of future labour market and welfare reforms. Ongoing employment growth and further reductions in the unemployment rate are likely to encourage higher labour force participation over the period ahead, with the participation rate expected to average around 63 per cent over the forecast period, up from 63.4 per cent in April 2002. .... Measured labour productivity growth in 2002-03 is expected to be supported by the forecast very strong growth in business investment, which will tend to lift the potential output of the existing labour force.

Source: Budget Strategy and Outlook, 2002-03

OR

Question 26 (20 marks)

Discuss the effectiveness of monetary policy in controlling inflation in the Australian economy.

Per cent change on year earlier

Per cent change on year earlier

Headline CPI

Ongoing inflation

The overall increase in the consumer price index is expected to be around 5 per cent over the year to the June quarter 2001. This is made up of ongoing inflation of around 2 per cent and a one-off impact of around 2 per cent on consumer prices as a result of indirect tax changes.

Source: Budget Strategy and Outlook, 2000-01

During 2001 the Bank reduced interest rates to historically low levels, reflecting principally a deteriorating international outlook and the potential risks that this posed to the Australian economy. However, the significant strengthening in the domestic economy that has become evident in recent months suggests that the longer term risks to the inflation outlook have increased, with upward pressures on inflation likely to see inflation rise back towards the top of the target band. A continuation of rapid growth in demand and activity would see capacity constraints start to put upward pressure on wages and prices. The decision to raise the cash rate by 25 basis points was aimed at reducing these risks, and thereby enhancing the prospects for sustained growth with low inflation.

Source: Reserve Bank of Australia (2002), Bulletin, June

End of Question 24

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, concept, relationships and theory
* present a sustained, logical and well-structured answer to the question

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Question 27 (20 marks)

Analyse the impact of globalisation on Australia's balance of payments and exchange rate.

OR

Question 28 (20 marks)

With reference to an economy other than Australia, analyse the impact of globalisation on its standard of living and strategies for economic development.

End of paper