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Centre Number

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Student Number



CATHOLIC SECONDARY SCHOOLS
ASSOCIATION OF NEW SOUTH WALES

2003

TRIAL HIGHER SCHOOL CERTIFICATE
EXAMINATION

Economics

Morning Session
Tuesday 5 August 2003

Q. 23. (a), (b).

General Instructions

- Reading time – 5 minutes
- Working time – 3 hours
- Write using blue or black pen
- Board-approved calculators may be used
- Use Multiple Choice Answer Sheet provided

Total marks – 100

Section I

Pages 2–6

20 marks

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

Section II

Pages 8–15

40 marks

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

Section III

Pages 17–19

20 marks

- Attempt EITHER Question 25 OR Question 26
- Allow about 35 minutes for this section

Section IV

Page 20

20 marks

- Attempt EITHER Question 27 OR Question 28
- Allow about 35 minutes for this section

Disclaimer

Every effort has been made to prepare these 'Trial' Higher School Certificate Examinations in accordance with the Board of Studies documents, *Principles for Setting HSC Examinations in a Standards-Referenced Framework* (BOS Bulletin, Vol 8, No 9, Nov/Dec 1999), and *Principles for Developing Marking Guidelines Examinations in a Standards Referenced Framework* (BOS Bulletin, Vol 9, No 3, May 2000). No guarantee or warranty is made or implied that the 'Trial' Examination papers mirror in every respect the actual HSC Examination question paper in any or all courses to be examined. These papers do not constitute 'advice' nor can they be construed as authoritative interpretations of Board of Studies intentions. The CSSA accepts no liability for any reliance use or purpose related to these 'Trial' question papers. Advice on HSC examination issues is only to be obtained from the NSW Board of Studies.

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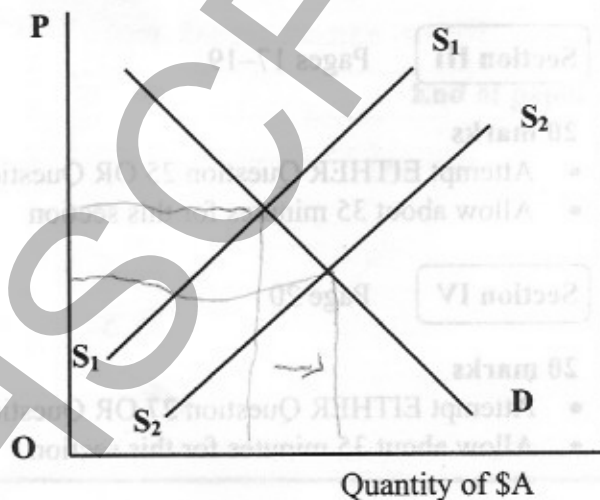
Section I
Total marks – 20

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

Use the Multiple Choice Answer Sheet provided

- 1 Which of the following countries is considered to be a newly industrialised country (NIC)?
 - (A) Japan
 - (B) China
 - (C) South Korea
 - (D) North Korea
- 2 What does the Lorenz Curve illustrate?
 - (A) The percentage of the population living in relative poverty
 - (B) The sources of income for a given population
 - (C) The percentage of the population living in absolute poverty
 - (D) The distribution of income for a given population
- 3 What is the most likely cause of the shift in the supply of Australian dollars from S_1 to S_2 ?

Price of \$A in \$US



- (A) Increased foreign investment in Australia
- (B) Increased demand for Australia's exports
- (C) Increased Australian government spending
- (D) Increased Australian demand for imports

- 4 How is net foreign liabilities calculated?
- (A) Net foreign liabilities = gross foreign debt + net foreign debt
 - (B) Net foreign liabilities = gross foreign debt - net foreign debt
 - (C) Net foreign liabilities = net foreign debt + net foreign equity
 - (D) Net foreign liabilities = net foreign debt - net foreign equity
- 5 Which of the following indicates contractionary fiscal policy?
- (A) Lower interest rates and a lower exchange rate
 - (B) Higher income tax rates and reduced government expenditure
 - (C) Higher income tax rates and increased government expenditure
 - (D) Lower income tax rates and reduced government expenditure
- 6 How would the school fees paid by an overseas student studying for the HSC in a NSW school be recorded in the Balance of Payments?
- (A) As a Services credit
 - (B) As a Current Transfer credit
 - (C) As an Income credit
 - (D) As a Capital Account credit
- 7 If the unemployment rate has reached the natural rate of 6%, what would be the most appropriate policy response to further reduce unemployment?
- (A) Increase the budget deficit
 - (B) Decrease interest rates
 - (C) Increase protection for labour intensive industries
 - (D) Increase expenditure on retraining programs for the unemployed
- 8 Which of the following is a public good?
- (A) Street lighting
 - (B) A public swimming pool
 - (C) Public transport
 - (D) A tollway

- 9 The following information refers to Question 9.

Selected economic data for a nation

| Balance of Payments | \$ Billions |
|---------------------------------------|-------------|
| Exports (goods) | 150 |
| Imports (goods) | 125 |
| Exports (services) | 50 |
| Imports (services) | 55 |
| Net Income and Transfers | ? |
| Capital and Financial Account Surplus | 50 |

What is the value of Net Income and Transfers?

- (A) \$30 billion surplus
(B) \$70 billion deficit
(C) \$120 billion deficit
(D) \$380 billion surplus
- 10 Which of the following is an economic cost of unemployment?
- (A) A loss of output and income
(B) Rising crime and suicide rates
(C) Loss of self esteem and confidence among the unemployed
(D) Rising divorce rates and falling fertility rates
- 11 What would be the effect of extending the Goods and Services Tax to currently non-taxed areas of expenditure?
- (A) It would reduce inflationary pressures
(B) It would reduce distortion in the allocation of resources
(C) It would lead to an increase in government spending on essential services
(D) It would increase pressure to raise interest rates
- 12 What will be the likely outcome if the Australian economy experiences a sustained inflow of foreign funds?
- (A) Strong inflationary pressures
(B) An increase in future current account deficits
(C) A decrease in the value of the Australian dollar
(C) A decrease in Australia's overseas investment

- 13 What impact would lower than expected levels of economic growth have on the budget outcome?
- (A) Decrease a budget surplus through cyclical factors
 - (B) Decrease a budget surplus through structural factors
 - (C) Decrease a budget deficit through structural factors
 - (D) Decrease a budget deficit through cyclical factors
- 14 Which of the following is an example of foreign direct investment?
- (A) Derivatives trading
 - (B) Securities trading
 - (C) A transnational company establishing a foreign subsidiary
 - (D) Australian Government securities sold overseas
- 15 Which of the following statements best explains the function of the International Monetary Fund (IMF)?
- (A) To promote trade liberalisation
 - (B) To promote international financial stability
 - (C) To facilitate long term development projects in developing countries
 - (D) To co-ordinate strategies regarding international economic and trade issues
- 16 Which of the following decreases the level of protection for domestic producers?
- (A) Increasing the value of subsidies
 - (B) Increasing the level of tariffs
 - (C) Increasing the use of embargoes
 - (D) Increasing the size of quotas on imports
- 17 Other things being equal, what increase in investment is required to produce a \$400m increase in national income in an economy with a MPS of 0.2?
- (A) \$80m
 - (B) \$320m
 - (C) \$400m
 - (D) \$2000m

18 Which of the following is an advantage of free trade?

- (A) Protection of infant industries
- (B) Higher opportunity costs
- (C) More efficient allocation of resources
- (D) More efficient protection of environmental resources

19 Which of the following is a role of the Employment Advocate?

- (A) The administration of Australian Workplace Agreements
- (B) Hearing of award Safety Net Cases
- (C) The administration of industrial awards
- (D) The certification of collective bargaining agreements

20 The table below shows selected economic data for a country.

| | \$ Billion |
|------------------------|------------|
| Savings | 50 |
| Investment | 30 |
| Taxation | 20 |
| Exports | 25 |
| Government Expenditure | 40 |
| Imports | 20 |

Which of the following statements can be supported by the information in the table?

- (A) The level of national income is in equilibrium
- (B) Planned savings equals planned expenditure
- (C) The level of economic activity will tend to expand
- (D) The level of economic activity will tend to contract

Section II

Total marks – 40

Attempt Questions 21-24

Allow about 1 hour and 15 minutes for this section

Answer the questions in the space provided

Question 21 (10 marks)

Marks

The table shows current account figures for a nation.

| Year | Current Account Deficit % GDP |
|---------------|-------------------------------|
| 1998-99 | -5.6% |
| 1999-00 | -5.3% |
| 2000-01 | -2.8% |
| 2001-02 | -1.2% |
| 2002-03 (est) | -5.5% |

- (a) Define the term current account.

1

The current account refers to all the transactions between the rest of the world including, balance on goods and services, net income account, as well as investments including direct and portfolio, which is all recorded in the current account.

- (b) With reference to the table, identify ONE reason why the current account deficit could have decreased in 2001-02.

1

The table identifies a decrease of CAD of 0.6-1. due to our strong economic growth which improved our value of the AUD as this in turn was financed to reduce our CAD level. A\$ ↑ goes up exports could ↓ due to Apr

- (c) Explain why the current account deficit (CAD) is usually expressed as a percentage of GDP.

2

The reason being CAD involves ^{foreign} liabilities, foreign investment and foreign equity where either interest or dividend is paid resulting in an outflow of money and is calculated with reference to GDP.

Question 21 continues on page 9

- (d) Explain the relationship between the current account balance and the net foreign liabilities. 2

The relationship is that Foreign liabilities are recorded as a debit on the current account balance, due to a portion of funds to foreigners. This results in a worsening of our CAD in order to finance these funds and are recorded on the current account balance.

- (e) Explain TWO possible negative effects of a continued current account deficit on an economy. 4

One of the possible effects of a continued CAD is that this will increase our level of debt to foreigners. Foreign investors will be deterred by our economy and remove funds from our economy resulting in a outflow of funds which will worsen our CAD even more.

RBA will increase interest rate in this situation which will result in ~~inflation~~ demand pull inflation. this is where business cost of production increase resulting in the passing cost to consumers.

End of Question 21

Those in greater bargaining power will be successful in wage increases while those vulnerable suffer leading to increase inequality or unemployment.

6/10

Question 22 (10 marks)

(continued) IS non Marks

- (a) How would the successful implementation of a range of microeconomic reforms affect aggregate supply? 1

Successful implementation of microeconomic reform through increased structural change, from efficient allocation of resources, and lifting level of productivity which results in an expansion in aggregate supply.

- (b) What is microeconomic reform? 2

Microeconomic reform refers to implementing structural change in the economy in order to increase the supply side of the economy by lifting the level of productivity through enterprise bargaining and efficient allocation of resources through a reduction in protection levels.

- (c) (i) Identify ONE microeconomic policy implemented by the Australian Government. 1

~~Decentralised wage system~~ Decentralised wage system.

- (ii) Briefly explain ONE impact of that policy on the Australian economy. 2

By removing govt control on wage outcomes, this microeconomic policy involves employers & employees in wage negotiation through enterprise bargaining in terms of their level of productivity. So if the economy is increasing productivity levels, then employers can grant wage increase without inflation rising.

Question 22 continues on page 11

Much better

Question 22 (continued)

Marks 4

- (d) Explain the role of microeconomic policies in complementing the Government's macroeconomic policies.

Macroeconomic policy (fiscal & monetary) has been used in unison with microeconomic policy (structural change) as a major short policy tool. The government's macro policy to influence the level of economic activity in the international business cycle in the short term, while micro policies in the longer term. Government use expansionary fiscal or monetary policy to increase our sustainable level of economic growth, this creates a demand in investment by foreigners, increase consumer consumption by depreciating the AUD, improving our CAD.

while micro focuses on the increase in productivity

End of Question 22

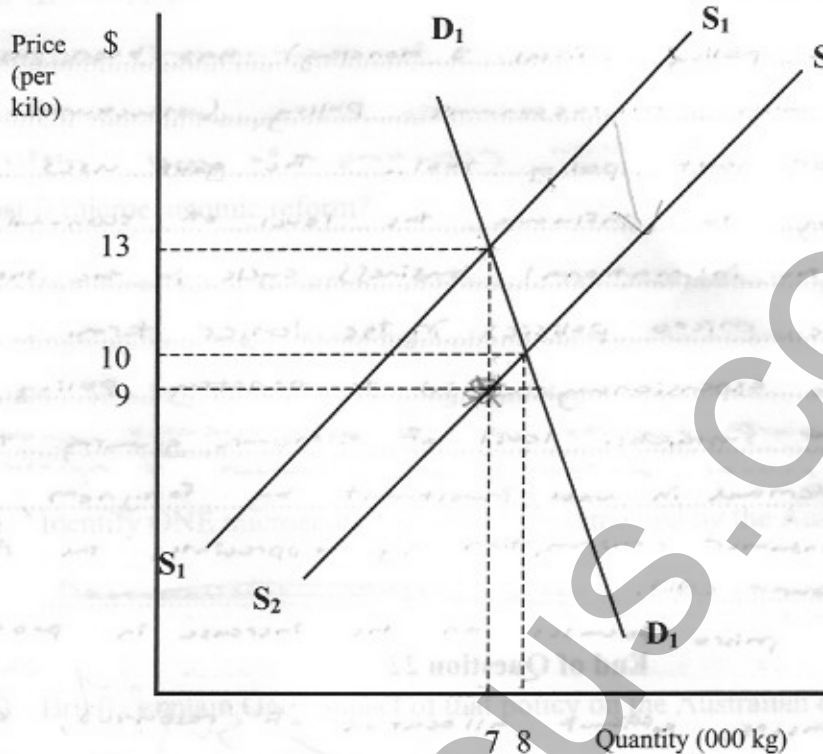
of producers, efficient allocation of resources, and structural change to sustain growth in the longer term. This has managed to keep inflation under control at the 2-3% range.

9
10

Question 23 (10 marks)

Marks

After the provision of a subsidy of sugar producers the supply curve shifts from S_1 to S_2 .



- (a) Calculate the subsidy per kilogram.

1

$$13 - 10 = \$3 \text{ per kg.}$$

- (b) Identify TWO economic arguments to justify the provision of a subsidy.

2

- One argument is to make domestic producers competitive on the world market through lower production costs.
- 2nd argument is to ~~protect~~ keep unemployment level low by providing financial incentives to ~~domestic~~ inefficient industries to be competitive and keep employment level.

- (c) Explain the negative impact on an economy of a subsidy for the sugar industry.

3

- One of the negative impact of a subsidy is the inefficient ~~being the price of sugar~~ allocation of resources of sugar in the economy.
- As Govt provide financial assistance it reduces the revenue which can be spent on infrastructure or investment to expand the economy.
- This subsidy will result in consumers paying more ~~for~~ for the price of sugar.

Question 23 continues on page 13

- d) Explain TWO reasons why a government would use a subsidy instead of a tariff to protect domestic industries.

- By using a subsidy, Govt are trying to improve the efficiency of domestic producers so in the longer run they will be able to minimise production costs to be competitive on the world stage. In the short run by protecting them will achieve this outcome.

- Tariff does not really protect domestic industries because there is no restrictions on the importation of goods. In the longer run domestic industries will lose which is what will result in the Govt being unable to protect them.

End of Question 23

By providing financial assistance, Govt can overcome this problem and protect them from some products. Cost of import competing industries.

Marks

[An objective of the Kyoto Protocol is to stabilise greenhouse gas emissions in order to contain global warming.....]

Sydney Morning Herald 11 December 2002

- 1

2

3

Ej. Recent Anti troop
sent to the ~~south~~^{SRAQ} tank.
The nation is benefiting.

- (d) Explain the possible impact of the Kyoto Protocol on the environment and on economic growth in Australia.

4

Recently, Australia has refused to ratify the protocol because the govt doesn't see protecting the environment as a significant policy as outlined in the stimulus. One of the impact this will have is to reduce our economic growth by reducing our levels of productivity. This in turn results in weakening of our export revenue which will increase our CAD. The impact of all these is that it will preserve our environment by limiting our greenhouse gas emissions and increase the plantation of trees, to overcome this problem.

End of Question 24

E.g. Kyoto Protocol will reduce deforestation and preserve our environment.

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.

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

Question 25 (20 marks)

Explain the role of Monetary Policy in achieving the goals of economic Management in Australia.

“Interest rates affect economic activity via a number of mechanisms. They can affect savings and investment behaviour, the spending behaviour of households, the supply of credit, asset prices and the exchange rate, all of which affect the level of aggregate demand.”

About Monetary Policy, RBA

| The Cash Rate 1999-2002 | |
|-------------------------|-----------|
| Date | Cash Rate |
| November 1999 | 5% |
| August 2000 | 6.25% |
| February 2001 | 5.75% |
| December 2001 | 4.25% |
| May 2002 | 4.50% |
| June 2002 | 4.75% |
| December 2002 | 4.75% |

End of Question 25

OR

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

Question 26 (20 marks)

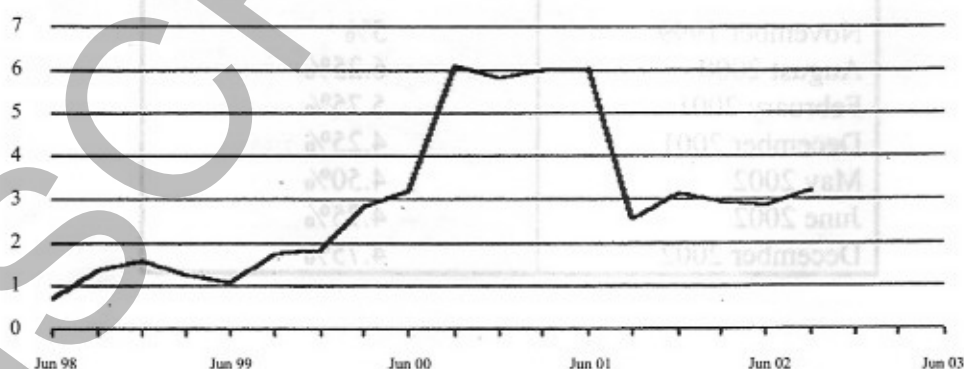
Explain the role of economic policies in achieving price stability in Australia.

Australia's improved inflation performance between 1992 and 2002 was consistent with lower world inflation due to falling costs and prices through the impact of globalisation. Domestic factors which assisted with low inflation outcomes were the successful use of interest rate targeting by the Reserve Bank; and the spread of structural reforms throughout the economy which helped to increase competition, raise productivity and lower prices of final goods and services.

Current Economics, July/August 2002

Consumer Price Index

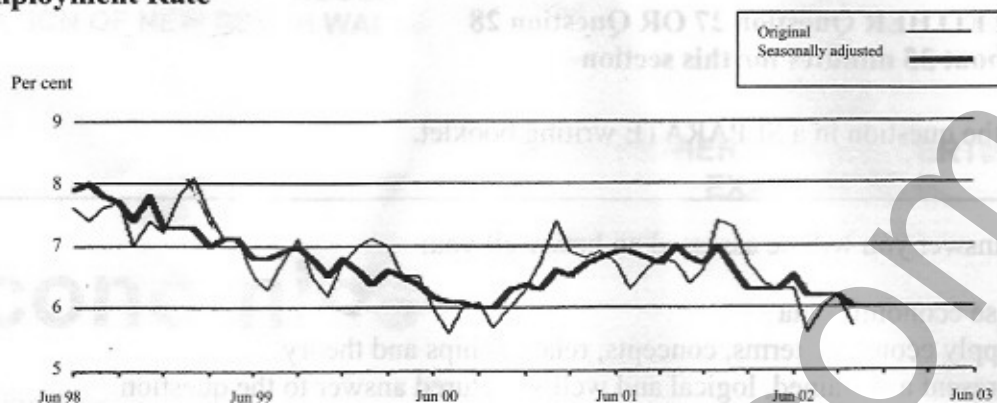
Annual Change – per cent



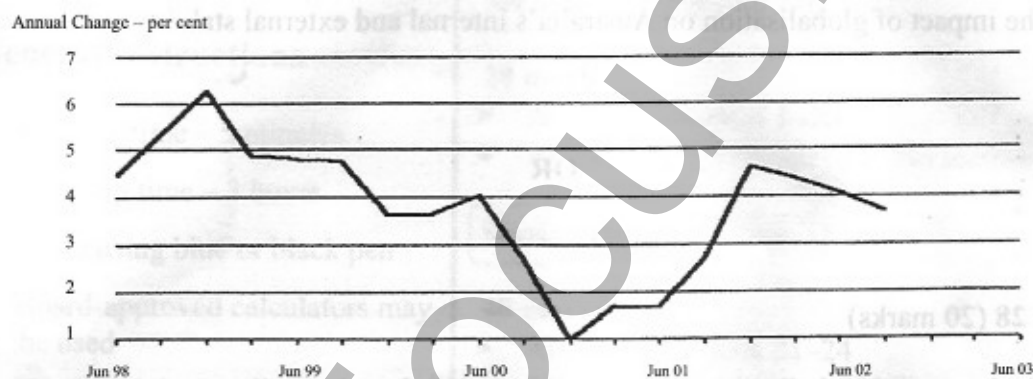
Question 26 continues on page 19

Question 26 (continued)

Unemployment Rate



Gross Domestic Product



Source: Australian Parliamentary Library, www.aph.gov.au/library

End of Question 26

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.

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 Australia's internal and external stability.

OR

Question 28 (20 marks)

Analyse the impact of globalisation on an economy other than Australia.

End of paper

EXAMINERS

Stephen Bunyan (convenor)
Margaret Heraghty
Sally Hunt
Peter McLean
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