STUDENT NUMBER/NAME: ……………………..

1. Which of the following will tend to decrease the level of aggregate demand?

(A) A fall in export receipts
(B) A fall in interest rates
(C) A fall in the budget surplus
(D) A fall in the value of the Australian dollar

2. The following table shows terms of trade data for a nation.

Year	Import Price Index	Export Price Index
1	100	100
2	108	104

According to the table what does the change in the terms of trade imply between Year 1 and Year 2?

(A) Export volumes have increased by 4%
(B) The need for greater levels of protection
(C) The exchange rate will appreciate
(D) A given volume of exports will buy a smaller volume of imports

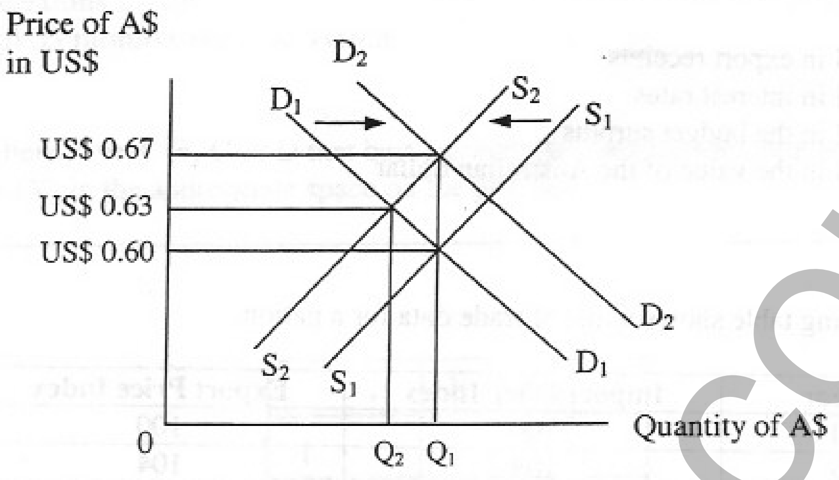
3. How is the natural rate of unemployment best defined?

(A) Full employment of the labour force with zero unemployment
(B) The rate of unemployment consistent with high inflation
(C) The rate of unemployment consistent with zero inflation
(D) The rate of unemployment consistent with stable growth in real wages

4. Which of the following is an example of a bilateral approach to reducing the protection of trade?

(A) World Trade Organisation (WTO)
(B) North American Free Trade Agreement (NAFTA)
(C) Closer Economic Relations Trade Agreement (CERTA)
(D) The European Union (EU)

5. The following diagram shows the demand for and supply of Australian dollars in the foreign exchange market.



Which of the following is a likely cause of a rise in the price of A$ from US$ 0.60 to US$ 0.67?

(A) A decrease in exports and an increase in imports
(B) An increase in exports and an increase in imports
(C) An increase in interest rates in Australia
(D) An increase in interest rates in the USA

6. What would be the most appropriate fiscal policy action a government could take during a recession?

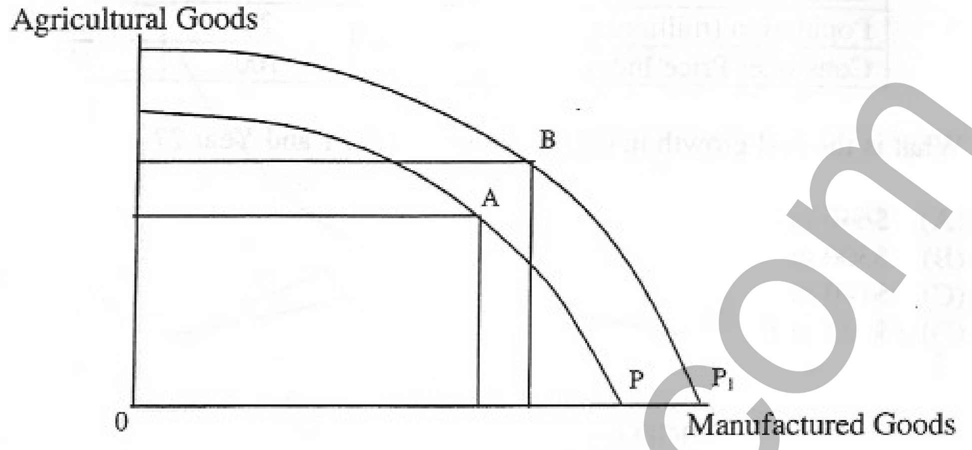
(A) Increasing government spending and increasing taxation
(B) Increasing government spending and decreasing taxation
(C) Decreasing government spending and decreasing taxation
(D) Decreasing interest rates through the purchase of government securities by the Reserve Bank of Australia

7. Which of the following best defines negative externalities in production?

(A) The costs associated with increased international competitiveness
(B) The costs associated with increased government charges on business
(C) The social costs associated with an economic activity
(D) Increases in costs associated with diseconomies of scale

STUDENT NUMBER/NAME: ……………………..

8. The following diagram shows production possibility curves for a developing economy.



What is a major outcome for this economy if it moves from point A on curve P to point B on curve P_1?

(A) An increase in output of manufactured goods only
(B) An increase in output of agricultural goods only
(C) An increase in economic development
(D) An increase in economic growth

9. Which of the following best describes Certified Agreements?

(A) Enterprise agreements which are negotiated collectively and are ratified by the Australian Industrial Relations Commission
(B) Enterprise agreements which are negotiated individually and are ratified by the Australian Industrial Relations Commission
(C) Enterprise agreements which are negotiated collectively and are ratified by the Employment Advocate
(D) Enterprise agreements which are negotiated individually and are ratified by the Employment Advocate

10. How are dividends remitted to Australia by Australian firms operating overseas recorded in the balance of payments?

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

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

	Year 1	Year 2
Gross Domestic Product $m (G.D.P.)	500	800
Population (millions)	20	22
Consumer Price Index	100	125

What is the real growth in G.D.P. between Year 1 and Year 2?

(A) $640 m
(B) $300 m
(C) $140 m
(D) $ 32 m

12. What is a major outcome of globalisation?

(A) Improvements in living standards in all developing countries
(B) An increase in the growth of world trade and investment
(C) An increase in the spread of tariff barriers
(D) An increase in the spread of tariff and non tariff barriers

13. The following table shows data for income, consumption and investment in a hypothetical economy.

Income ($m)	Consumption ($m)	Investment ($m)
0	1000	200
1000	1800	200
2000	2600	200
3000	3400	200

In this economy, what is the equilibrium level of national income?

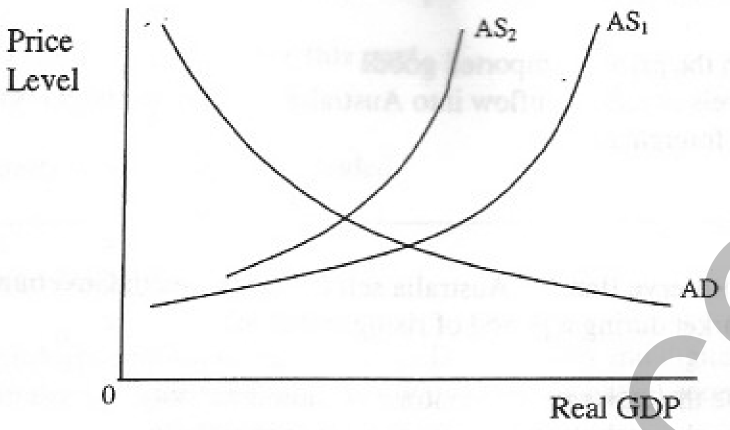
(A) $1000 m
(B) $200 m
(C) $6000 m
(D) $1200 m

14. Which of the following is a feature of an economy as it becomes more developed?

(A) The proportion of the labour force working in service industries rises
(B) The proportion of the labour force working in agriculture rises
(C) The birth rate rises
(D) Agricultural output falls

STUDENT NUMBER/NAME: ....

15. The following diagram shows aggregate demand and aggregate supply curves for an economy.



What is the possible cause of the shift in the aggregate supply curve from AS$_1$ to AS$_2$?

(A) A rise in oil prices causing production costs to increase in the economy
(B) The use of contractionary fiscal policy by the government
(C) The successful use of microeconomic policy to increase aggregate supply
(D) An appreciation of the economy's exchange rate

16. What is the major source of household income in Australia?

(A) Government transfer payments
(B) Rent, interest and profit
(C) Financial and business assets
(D) Wages and salaries

17. What is the likely impact of automatic stabilisers on the government's budget during a boom in the business cycle?

(A) The size of a budget deficit will increase or a surplus will decrease
(B) The size of a budget deficit will decrease or a surplus will increase
(C) Taxation revenue will decrease
(D) Government spending will increase

18. What is the likely impact of an appreciation of the Australian dollar?

(A) Increase in the international competitiveness of export and import competing industries
(B) Decrease in the international competitiveness of export and import competing industries
(C) Increase in the price of imported goods
(D) Higher levels of capital inflow into Australia as domestic assets become cheaper relative to foreign assets

19. Why would the Reserve Bank of Australia sell Commonwealth Government Securities in the money market during a period of rising inflation?

(A) To decrease the cash rate and contract economic activity
(B) To decrease the cash rate and expand economic activity
(C) To increase the cash rate and contract economic activity
(D) To increase the cash rate and expand economic activity

20. What is a major advantage to Australia of direct foreign investment?

(A) Increased liquidity in the Australian share market
(B) Transfers of new technology
(C) Higher levels of foreign ownership of Australian resources
(D) Reduced levels of domestic protection

STUDENT NUMBER/NAME: ....

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**

The following information shows the output of DVD players and digital cameras in two countries, Australia and Japan and selected commentary on global economies.

Country	DVD Players	Digital Cameras
Australia	80	100
Japan	20	50

In recent decades, globalising, export oriented economies have grown considerably faster than inward focussed economies. In the 1980s and 1990s, economies that opened to global markets on average grew about four times faster than those that did not, increasing their populations' living standards and reducing poverty faster than more closed economies.

Source: Department of Foreign Affairs & Trade (1.4.03)

(a) Calculate the opportunity cost of DVD players in Australia. **1**

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(b) Calculate the opportunity cost of DVD players in Japan. **1**

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(c) Identify the country which has the comparative advantage in DVD players. **1**

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Question 21 continues on page 10

Question 21 (continued) **Marks**

(d) Explain TWO economic benefits to Australia and Japan of engaging in free trade. **2**

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(e) Evaluate the effectiveness of the World Trade Organisation in promoting free trade. **5**

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End of Question 21

STUDENT NUMBER/NAME: ....

Question 22 (10 marks) **Marks**

The following table shows the distribution of estimated market income and wealth in Australia.

Families	Estimated market income	Wealth
Lowest 20%	<1%	<1%
Second 20%	3%	3%
Third 20%	15%	12%
Fourth %	26%	23%
Highest 20%	57%	62%

Sources:
Income – National Centre for Social and Economic Modelling (NATSEM), University of Canberra
Wealth – Hans Baekgaard, 'The Changing Patterns of the Distribution of Household Wealth in Australia from 1986 to 1993', NATSEM Conference Paper, September 1997

(a) Distinguish between income and wealth. **2**

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(b) Outline TWO features of the distribution of income and wealth in Australia from the data in the table. **2**

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(c) Describe TWO factors contributing to inequality in the distribution of income in Australia. **2**

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Question 22 continues on page 12

Question 22 (continued) **Marks**

(d) Explain TWO specific government policies aimed at reducing inequality in the distribution of income and wealth in Australia. **4**

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End of Question 22

STUDENT NUMBER/NAME: ....

Question 23 (10 marks) **Marks**

The following table gives selected economic data for a country.

Year	% change in real G.D.P	CPI	Employed persons	Unemployed persons
1	2.5	105	6,500,000	500,000
2	3.0	115	6,550,000	450,000
3	4.5	130	6,900,000	300,000
4	5.0	136	7,000,000	250,000
5	5.5	140	7,250,000	200,000

Using the data in the table above:

(a) Calculate the unemployment rate in Year 2 **1**

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(b) Calculate the inflation rate in Year 3 **1**

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(c) Describe the trend in the relationship between unemployment and inflation between Years 2 and 3. **2**

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(d) Outline TWO possible sources of economic growth between Years 1 and 5. **2**

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Question 23 continues n next page

Question 23 (continued) **Marks**

(e) Explain how ONE macroeconomic and ONE microeconomic policy could be used to reduce inflation in Year 3. **4**

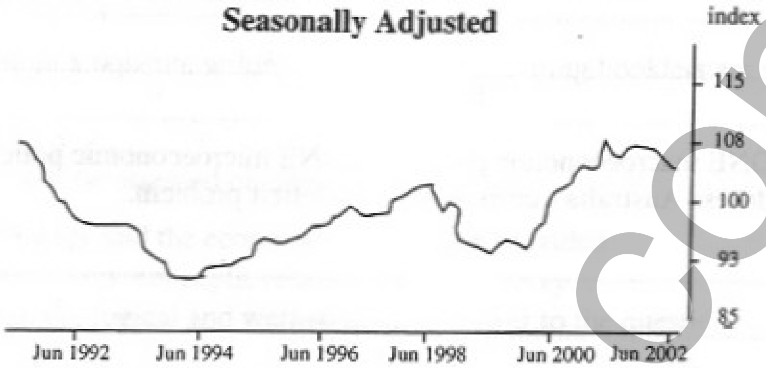
End of Question 23

STUDENT NUMBER/NAME: ....

Question 24 (10 marks) **Marks**

The following provides information of Australia's terms of trade and the balance of payments.

Terms of Trade for Goods and Services: Seasonally Adjusted



Components of Australia's Current Account ($m)					
Year	**Goods Credits**	**Goods Debits**	**Services**	**Income**	**Current Transfers**
1999-00	97655	-110610	-1494	-19346	58
2000-01	120337	-120191	561	-19571	178

Source: Australian Bureau of Statistics, National Accounts

Using the data in the table above:

(a) Explain what is meant by the terms of trade. **1**

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(b) Calculate Australia's current account deficit for the year 2000-01. **1**

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(c) Outline TWO reasons for Australia's current account deficit in 1999-00. **2**

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Question 24 continues on page 16

Question 24 (continued) **Marks**

(d) Explain the link between Australia's current account deficit and foreign debt. **2**

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(e) Analyse ONE macroeconomic policy and ONE microeconomic policy that have been used to address Australia's current account deficit problem. **4**

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End of Question 24

STUDENT NUMBER/NAME: ....

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

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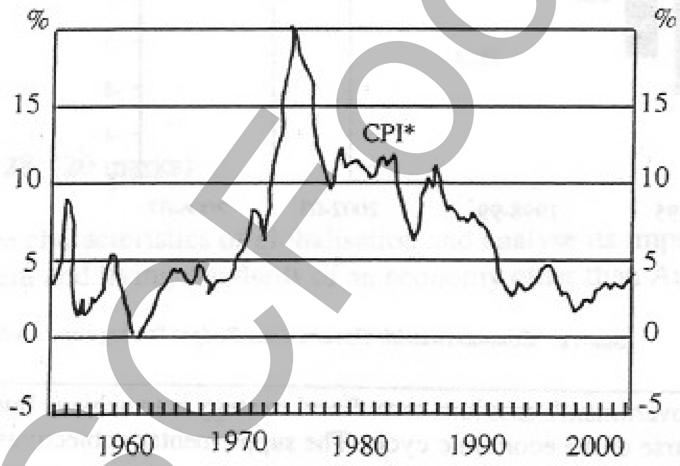
Question 25 (20 marks)

Discuss the effectiveness of monetary policy and other economic policies in achieving price stability in Australia.

Inflation
(year ended)



*excludes interest charges, tax changes and health policy changes

> Inflation targeting has been a successful model for monetary policy in Australia. It has been associated with lower, less variable inflation, and better and less variable economic growth. While I would not claim that improved overall economic performance has been entirely due to the adoption of inflation targeting, I do claim that this approach to policy has made a significant contribution.
> Inflation targeting allows a considerable degree of short-term flexibility for monetary policy decisions, but also imposes the appropriate medium-term constraints. That's a very good combination. There are no alternative models at the moment for Australia's monetary policy which offer a better mix.
>
> *Source: Reserve Bank of Australia*
> *"Inflation Targeting: A Decade of Australian Experience"*
> *Glenn Stevens, Deputy Governor, 10 April 2003*

OR

STUDENT NUMBER/NAME: ....

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

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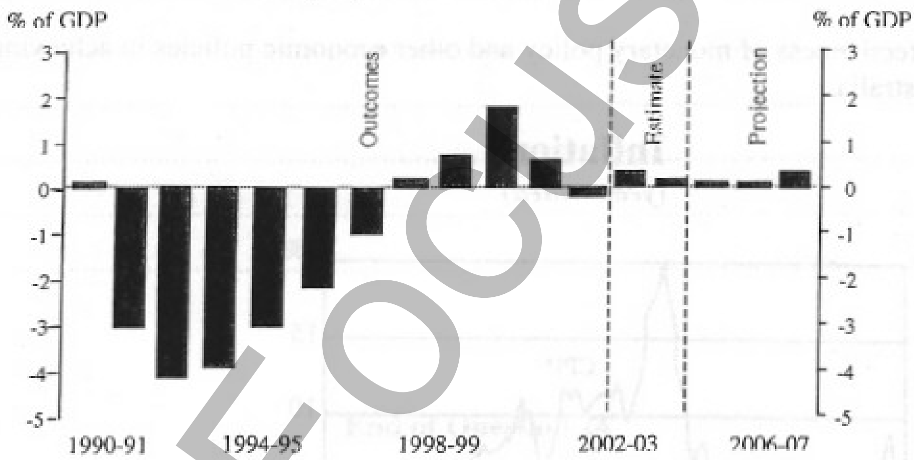
Question 26 (20 marks) **Marks**

Discuss the use of fiscal policy in achieving the government's economic objectives in Australia.

Underlying cash balance



Source: Commonwealth Government, Budget Strategy and Outlook 2003-04

The primary objective of the Government's medium-term fiscal strategy is to achieve budget balance on average over the course of the economic cycle. The supplementary objectives are:

- maintaining surpluses over the forward estimates period while economic growth prospects remain sound;
- no increase in the overall tax burden from its 1996-97 level; and
- improving the Commonwealth's net debt position over the medium to longer term

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 situation 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: Commonwealth Government, Budget Strategy and Outlook 2001-02

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

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Question 27 (20 marks)

Analyse the impact of globalisation on Australia's balance of payments and evaluate government policies to improve Australia's international competitiveness.

OR

Question 28 (20 marks)

Discuss the characteristics of globalisation and analyse its impact on the economic development and living standards of an economy other than Australia.

End of paper