Centre Number

Student Number

CATHOLIC SECONDARY SCHOOLS
ASSOCIATION OF NEW SOUTH WALES

2004
TRIAL HIGHER SCHOOL CERTIFICATE EXAMINATION

Economics

Morning Session
Tuesday 3 August 2004

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
- Write your Centre Number and Student Number at the top of this page and pages 9 and 17

Total marks – 100

Section I Pages 3-7

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

Section II Pages 9-16

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

Section III Pages 17-18

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

Section IV Page 19

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

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Section I

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

Use the Multiple Choice Answer Sheet provided

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1 Which of the following is an example of a bilateral trade agreement?

(A) WTO
(B) CERTA
(C) IMF
(D) APEC

2 Which of the following factors is most likely to increase Australia's international competitiveness?

(A) An increase in the value of the Australian dollar
(B) Increased exports
(C) An increase in labour productivity
(D) An increase in the labour force participation rate

3 If the Marginal Propensity to Consume is 0.8, what is the size of the simple multiplier?

(A) 0.2
(B) 0.8
(C) 1.25
(D) 5

4 Which of the following is a feature of Certified Agreements?

(A) They are negotiated collectively by groups of employees
(B) They protect the incomes of low paid workers
(C) They are arbitrated by the AIRC
(D) They are individual contracts between employers and employees

5 What common characteristics restrict economic growth in developing countries?

(A) Low levels of labour productivity, low per capita incomes, low levels of foreign debt

(B) High dependence on agriculture, high levels of unemployment and underemployment, high levels of income inequality

(C) Low levels of technology, low levels of saving, low levels of poverty

(D) High levels of capital accumulation, high levels of taxation, high levels of foreign investment

6 All other things being equal which of the following is likely to lead to a rise in the value of the Australian dollar?

(A) An increase in the volume of Australian exports

(B) An increase in the volume of Australian imports

(C) An increase in Australian investment overseas

(D) An increase in overseas interest rates relative to Australia

7 Which of the following is an effect of high levels of inflation?

(A) Exporters gain an unfair advantage on foreign markets

(B) High interest rates leading to excessive levels of investment

(C) Uncertainty leading to low levels of investment

(D) Increases in the purchasing power of consumers

8 The table below refers to a nation's terms of trade.

Year	Export Price Index	Import Price Index
1	100	100
2	106	108
3	112	110

Based on the information in the table, which statement is true?

(A) Terms of trade improved between Year 1 and Year 2

(B) Terms of trade deteriorated between Year 2 and Year 3

(C) In Year 2, a greater quantity of imports could be purchased with the same quantity of exports than in Year 1

(D) In Year 3, a greater quantity of imports could be purchased with the same quantity of exports than in Year 2

9 Which of the following is measured by the Human Development Index?

(A) Economic Growth

(B) Purchasing Power Parity

(C) Economic Development

(D) Gross National Development

10 Which of the following factors would be most likely to cause an increase in the natural rate of unemployment?

(A) A slow down in economic activity

(B) Rapid structural change in the economy

(C) The privatisation of government businesses

(D) An increase in the number of immigrants

11 Which of the following is a characteristic of a public good?

(A) Non-rival

(B) Excludable

(C) Easily transferable

(D) High enforceability

12 Which of the following factors has been most responsible for the Australian Government's budget surplus in recent years?

(A) Decreasing government expenditure

(B) Increasing tax collections

(C) Issuing government securities

(D) Increasing capital inflow

13 Which of the following describes the likely effect of a tariff?

(A) An increase in demand for imported goods

(B) An increase in long-term international competitiveness

(C) An increase in domestic output

(D) An increase in consumer satisfaction

14 Which of the following components comprise net foreign liabilities?

(A) Net goods and net services
(B) Net foreign debt and net foreign equity
(C) Direct investment and reserve assets
(D) Direct foreign credit and foreign capital

15 What is the rationale behind microeconomic policy?

(A) It aims to increase aggregate supply and price
(B) It aims to increase aggregate demand and price
(C) It aims to increase aggregate supply and efficiency
(D) It aims to increase aggregate demand and efficiency

16 How would the Reserve Bank increase interest rates in the economy?

(A) Buy government securities and so decrease liquidity in money markets
(B) Buy government securities and so increase liquidity in money markets
(C) Sell government securities and so increase liquidity in money markets
(D) Sell government securities and so decrease liquidity in money markets

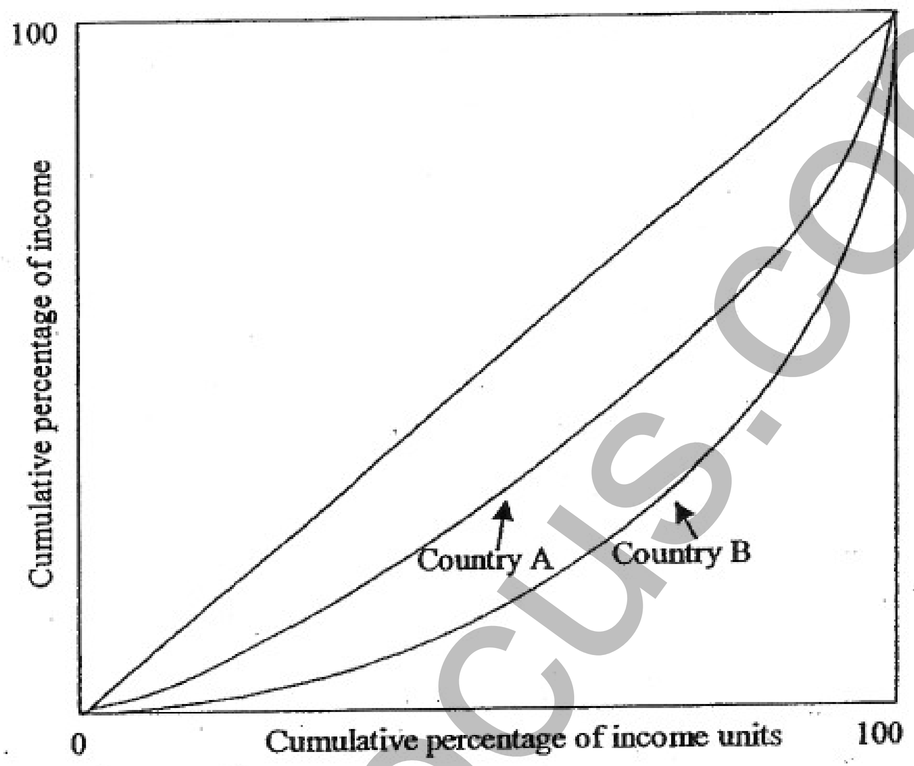
17 Which of the following best demonstrates economic integration in the global economy?

(A) The establishment of Trade Blocs
(B) The removal of barriers to trade
(C) A further consolidation of world trade among developed economies
(D) A reduction in free trade

18 Which of the following indexes is a measure of the value of the Australian dollar?

(A) The Consumer Price Index
(B) The Trade Weighted Index
(C) The Terms of Trade Index
(D) The Cross Rate Index

19 Lorenz Curves for Country A and Country B



Which of the following can be said of Country B compared to Country A?

(A) Country B has a less equal distribution of income and a higher Gini coefficient

(B) Country B has a more equal distribution of income and a higher Gini coefficient

(C) Country B has a more equal distribution of income and a lower Gini coefficient

(D) Country B has a less equal distribution of income and a lower Gini coefficient

20 Which of the following is an outcome of the corporatisation of a Public Trading Enterprise?

(A) Allowing competitors to access publicly owned infrastructure

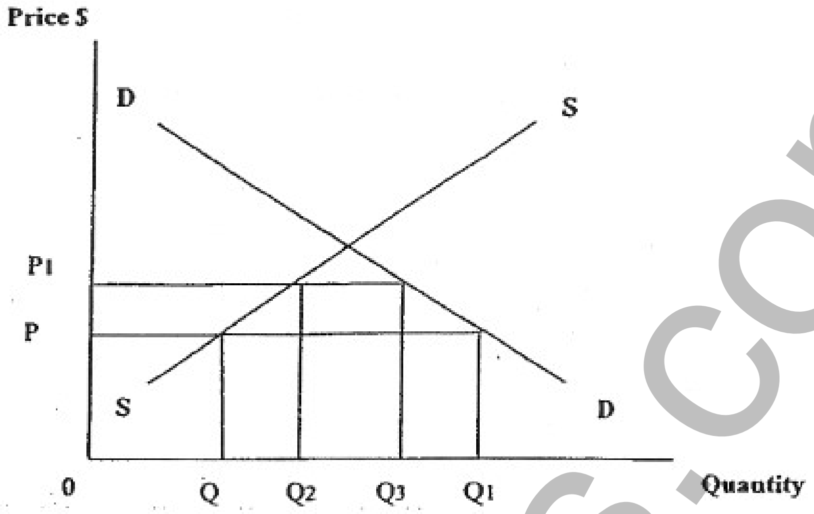
(B) Concessional tax rates for efficient Government Businesses

(C) Selling off government owned enterprises

(D) Restructuring government owned enterprises

Question 21 (10 marks) **Marks**

The diagram below shows domestic supply and demand for widgets. The tariff is represented by PP_1.



(a) Define the term *tariff*. **1**

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(b) Shade **on the diagram** the area that represents the revenue to domestic producers after the tariff is imposed. **1**

(c) What would be the level of imports if the tariff was removed? **1**

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Question 21 continues on page 11

Question 21 (continued) **Marks**

(d) Explain why domestic supply will decrease following the removal of the tariff. **2**

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(e) Discuss the long term effects on the Australian economy of reductions in protection. **5**

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End of Question 21

Question 22 (10 marks) **Marks**

(a) Define the term ecologically sustainable development. **1**

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(b) Outline the concept of market failure with respect to the environment. **2**

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(c) Why does preservation of the environment conflict with other economic goals? **3**

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Question 22 continues on page 13

Question 22 (continued) **Marks**

(d) Explain TWO measures the Australian Government could take to preserve the natural environment. **4**

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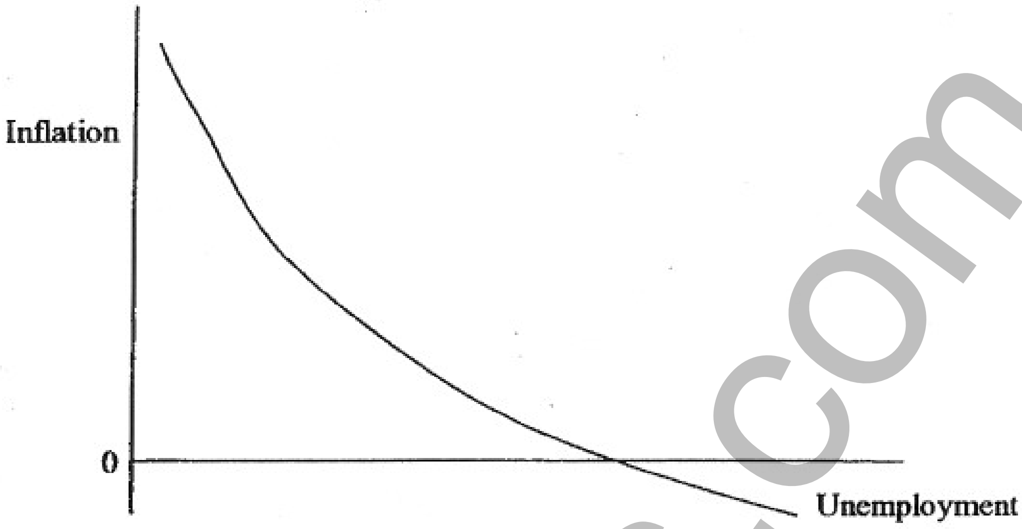
End of Question 22

Question 23 (10 marks) **Marks**

Phillips Curve for a hypothetical country.



(a) Define the term *unemployment*. 1

The number of people who are not working but are actively Seeking work.

(b) Outline the circumstances in which a reduction in unemployment could lead to an increase in inflation. 2

An reduction in unemployment which creates an increase in aggregate demand and as that will create strong economic growth and that will cause an increase in inflation.

Question 23 continues on page 15

Question 23 (continued) **Marks**

(c) Describe THREE effects of unemployment. **3**

An economic cost is lower living standards as less people work and amount of income recieved will be less. Costs to the government as it has to provide more welfare payments. Opportunity cost of lost production as labour force is not used to its max efficiency

(d) Outline TWO government macroeconomic policy responses to unemployment. **4**

- Monetary policy - interests rate - as the reserve bank of Aust. increases the interests rate, it will encourage consumer expenditure and that will increase aggregate demand which will reduce unemployment.
- Fiscal policy - budget - as the government have a ~~sur~~ deficit budget which means spending more into the circular flow of an economy will boost economic activity which will lead to reduction of unemployment.

End of Question 23

Question 24 (10 marks) **Marks**

(a) Define a floating exchange rate. **1**

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(b) Identify a possible cause of an appreciation of the Australian dollar. **1**

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(c) Describe TWO methods the Reserve Bank could use to influence Australia's exchange rate. **4**

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(d) Explain TWO effects of an appreciating AUD on the Australian economy. **4**

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End of Question 24

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Section III

20 marks
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 you 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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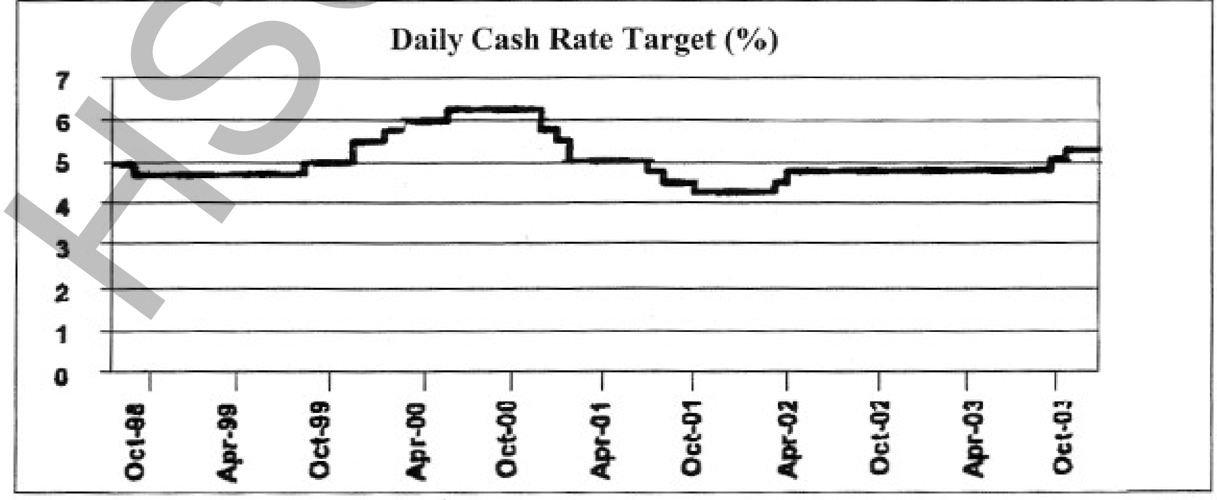
Question 25 (20 marks)

Explain the role of monetary policy in achieving the economic goals of full employment, inflation and economic growth.

Inflation and monetary policy
The Reserve Bank of Australia faces a difficult balancing act. It appears that domestic price pressures are accelerating, although in the short-term, the stronger AUD will see a below target inflation rate…In addition, there are mixed signals on the economy. While parts of the domestic economy are still travelling solidly, there are signs of a cooling in the property market and exporter incomes are being hit by the high AUD. We believe that…there is still a slightly greater chance for…accelerating inflationary pressure than for a slow down in activity...We expect one further increase in interest rates in coming months, to a peak of 5.5 per cent.

ANZ Bank, Australian Economic Outlook, March quarter 2004



OR

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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 how macroeconomic and microeconomic policies may be used to achieve external balance for the Australian economy.

Australia's Current Account

Financial Year	Balance on Current Account	Balance on Goods & Services	Net Income Current Transfers	CAD as a % of EDP
1994-95	- 27.8	- 9.9	- 17.0	6.3
1996-97	- 17.5	+ 1.8	- 19.3	3.4
1998-99	- 32.9	- 14.4	- 18.5	5.6
1999-00	- 33.3	- 14.3	- 18.0	5.1
2000-01	- 18.1	+ 0.9	- 19.0	2.7
2001-02	- 21.8	- 1.6	- 20.2	3.1
2002-03	- 42.5	- 19.7	- 22.8	5.7

"Australia's current account deficit moves in cycles, reflecting a mix of short and longer term, domestic and external influences. The balance of goods and services tend to fluctuate from surplus to deficit in response to cyclical factors…The income account-the major cause of the CAD-tends to stay stable around $20 billion each year, as a result of structural factors."

Leading Edge Economics Update August 2003

Economics
Section IV

20 marks
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

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Question 27 (20 marks)

Analyse the role played by economic policies in promoting globalisation in EITHER the Australian economy OR an economy other than Australia.

OR

Question 28 (20 marks)

Analyse government policies that may influence the distribution of income in Australia.

End of paper

macro micro

Fiscal monetary