

Economics

Total marks - 100

General Instructions

- Reading time – 5 minutes
- Working time – 3 hours
- Write using black or blue pen
- Board approved calculators may be used
- Write your student number and/or name at the top of every page

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 and 15 minutes for this section

Section III – Pages 17 – 18

Total marks (20)

Attempt either Question 25 or Question 26

Allow about 35 minutes for this section

Section IV – Page 19

Total marks (20)

Attempt EITHER Question 27 or Question 28

Allow about 35 minutes for this section

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. What is meant by the labour force participation rate?
 - (A) The percentage of the working age population who are in work
 - (B) The percentage of the total population in work or looking for work
 - (C) The percentage of the total population who are working
 - (D) The percentage of the working age population in work or looking for work

2. Which of the following best describes the characteristics of low human development countries?
 - (A) High population growth, high infant mortality and high GDP per capita
 - (B) High population growth, high infant mortality and high inflation rates
 - (C) High population growth, high infant mortality and high levels of domestic saving
 - (D) High population growth, high infant mortality and high literacy rates

3. The following table shows selected balance of payments information for a country.

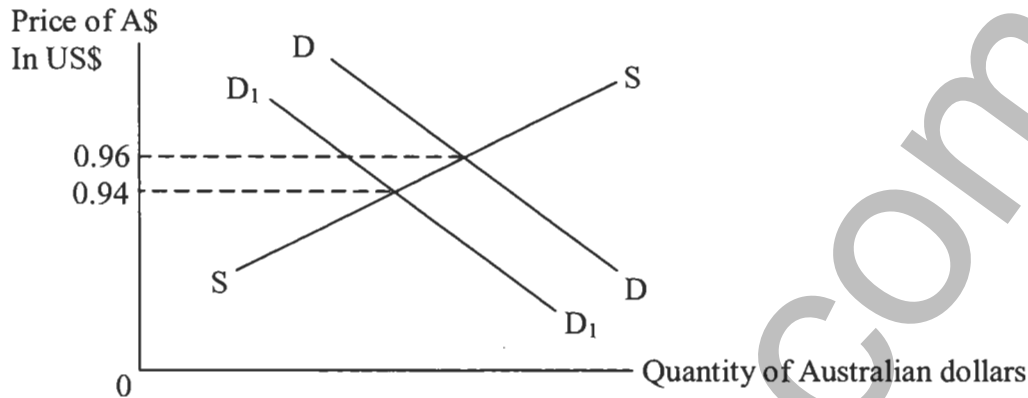
Selected Items in the Balance of Payments	\$ millions
Goods credits	2,800
Goods debits	3,000
Financial account	910
Net services	400
Net income and transfers	-1220

What is the balance on current account?

- (A) \$1510 million
 - (B) -\$910 million
 - (C) -\$1020 million
 - (D) -\$200 million

4. Which of the following government economic policies would most likely improve the distribution of income in Australia?
 - (A) A decrease in the marginal rate of taxation for high income earners and a decrease in welfare payments
 - (B) A decrease in the marginal rate of taxation for low income earners and an increase in welfare payments
 - (C) An increase in the marginal rate of taxation for low income earners and a decrease in welfare payments
 - (D) An increase in the marginal rate of taxation for all income earners and a decrease in welfare payments

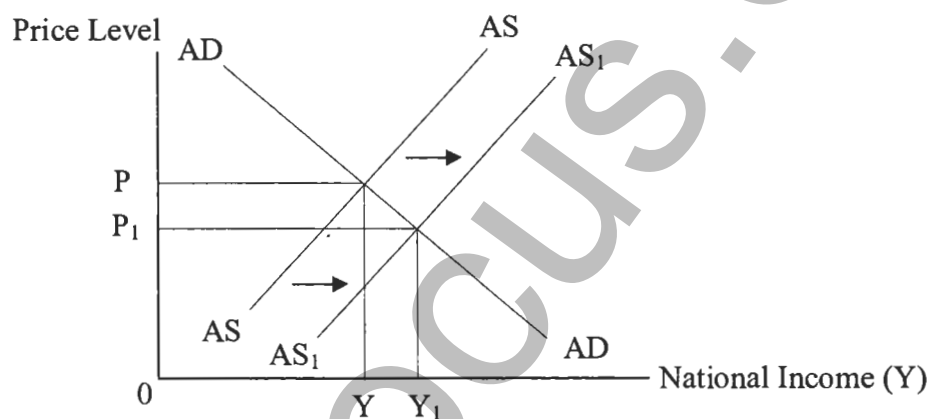
5. The diagram below shows the demand and supply of Australian dollars in terms of United States dollars in the foreign exchange market.



Which of the following could have caused the fall in the value of the Australian dollar?

- (A) An increase in Australian interest rates
 - (B) An increase in US interest rates
 - (C) An increase in commodity prices
 - (D) An increase in commodity exports
6. A multinational car manufacturer decides to install new and more effective anti-pollution technology in its vehicles following the commencement of a national emissions trading scheme.
- Which of the following outcomes would be a result of this action?
- (A) An increase in private costs and an increase in negative externalities
 - (B) An increase in social costs and an increase in negative externalities
 - (C) An increase in private costs and a reduction in negative externalities
 - (D) An increase in social costs and a reduction in negative externalities
7. Which of the following would be expected to occur after an increase in interest rates by the Reserve Bank of Australia to reduce inflation?
- (A) A fall in the level of output and a rise in the demand for money
 - (B) A fall in the level of business and consumer spending and a rise in saving
 - (C) A fall in the level of imports and a rise in the level of private sector borrowing
 - (D) A rise in investment and a fall in the level of consumption

8. What is the most likely cause of increases in world oil prices during the global resources boom between 2004 and 2007?
- (A) The development of alternative energies to oil supplies
 - (B) Restrictions on oil supplies to world markets by the Organisation of Petroleum Exporting Countries
 - (C) Increased excise duty imposed on petroleum products by the Australian government
 - (D) Increased demand for oil by emerging economies such as China and India
9. The following diagram shows aggregate demand and supply curves for an economy.



Which of the following microeconomic reforms could move the aggregate supply curve from AS to AS₁?

- (A) Taxation reform, financial deregulation and increased interest rates
 - (B) Taxation reform, trade reform and decreased government expenditure on infrastructure
 - (C) Taxation reform, trade reform and increased government expenditure on defence
 - (D) Taxation reform, privatisation and increased government expenditure on education
10. From which of the following international organisations could a developing country borrow funds to overcome a shortage of foreign exchange?
- (A) The International Monetary Fund
 - (B) The World Trade Organisation
 - (C) The World Bank
 - (D) The European Union

11. What could cause a favourable movement in a country's terms of trade?

- (A) Import prices rising faster than export prices
- (B) Import prices rising and export prices falling
- (C) Export prices rising and import prices rising
- (D) Export prices rising and import prices falling

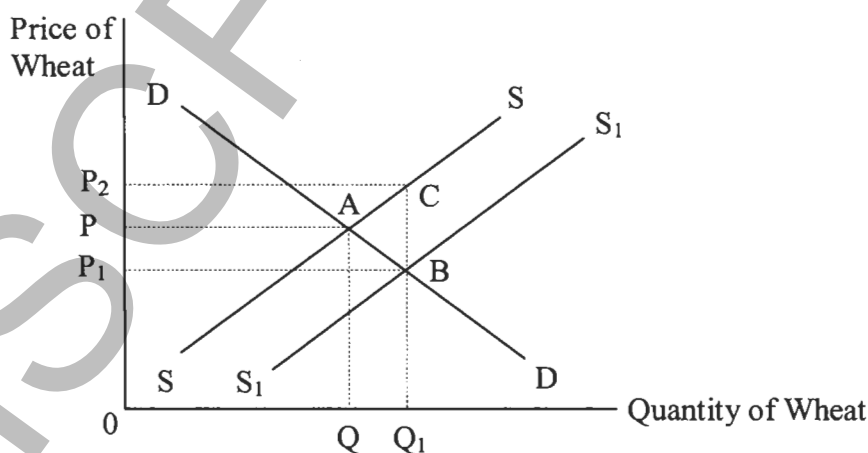
12. The following table shows selected data for an economy.

Year	Change in Real Gross Domestic Product (%)	Government Budget Revenue (\$b)	Government Budget Expenditure (\$b)	Unemployment Rate (%)
1	3.5%	303	280	4.0%
2	2.5%	320	292	4.5%

From Year 1 to Year 2, which of the following statements is correct for this economy?

- (A) The budget surplus is increasing and real economic activity is expanding
- (B) The budget surplus is increasing and real economic activity is contracting
- (C) The budget deficit is increasing and real economic activity is expanding
- (D) The budget deficit is increasing and real economic activity is contracting

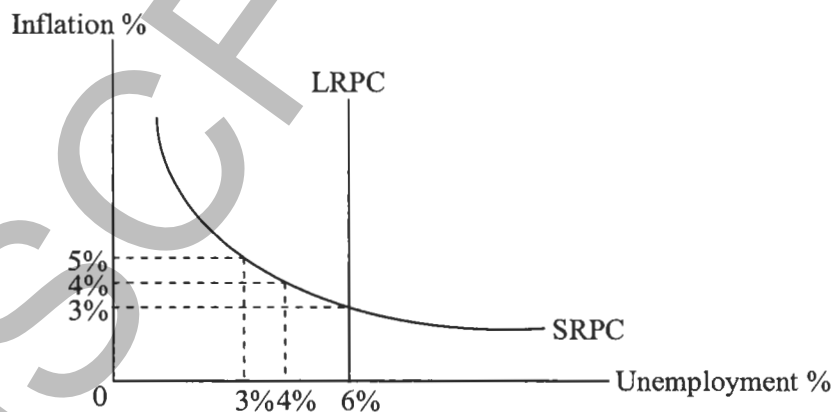
13. The following diagram shows the effect of a government subsidy paid to a country's wheat industry.



What is the size of the subsidy paid by the government to the wheat industry?

- (A) PP_2
- (B) AC
- (C) AB
- (D) CB

14. If an economy's Marginal Propensity to Consume is 0.8Y and there is an increase in autonomous investment of \$200m, what is the ultimate increase in national income?
- (A) \$1000m
(B) \$1600m
(C) \$40m
(D) \$160m
15. Which two economic objectives are usually not in conflict?
- (A) Full employment and price stability
(B) Economic growth and external stability
(C) Full employment and economic growth
(D) Economic growth and price stability
16. What is a major feature of the safety net system in the Australian industrial relations framework?
- (A) Productivity bargaining at the enterprise level
(B) Annual adjustment of federal award wages
(C) Individual workplace agreements between an employee and employer
(D) Collective workplace agreements between trade unions and employers
17. The following diagram shows the Short Run Phillips Curve (SRPC) and the Long Run Phillips Curve (LRPC) for an economy.



What is the economy's natural rate of unemployment?

- (A) 0%
(B) 3%
(C) 4%
(D) 6%

18. What is a major reason for the globalisation of economic activity?
- (A) Increasing integration of national economies
 - (B) Increasing levels of international protection
 - (C) Increasing international divergence between economies
 - (D) Increasing growth and development in developing economies
19. If US investors sold shares in Australian mining companies, how would this be recorded in the Australian balance of payments?
- (A) As a debit in the current account
 - (B) As a credit in the current account
 - (C) As a debit in the financial account
 - (D) As a debit in the capital account
20. How can structural change improve Australia's international competitiveness?
- (A) By causing a depreciation in the Australian dollar
 - (B) By increasing the efficiency of resource allocation
 - (C) By causing an improvement in the terms of trade
 - (D) By raising the level of domestic protection

End of Section I

Section II**Total marks (40)****Attempt Questions 21 – 24****Allow about 1 hour and 15 minutes for this section**

Answer the questions in the spaces provided.

Question 21 (10 marks)**Marks**

The following table shows selected information for a hypothetical economy.

Year	Nominal GDP (\$ billions)	Consumer Price Index (Base Year = 100)	Population (millions)
1	430	100	221
2	550	110	221.5

- (a) Define the term
- economic growth*
- .

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- (b) Distinguish between nominal GDP and real GDP.

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- (c) Calculate real GDP in Year 2 for the hypothetical economy.

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- (d) Explain TWO benefits of economic growth.

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Question 21 continues on the next page

Question 21 (continued)

Marks

- (e) Explain TWO current constraints impacting on economic growth in Australia.

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End of Question 21

Marks

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Question 22 continues on the next page

Question 22 (continued)

Marks

- (d) Explain TWO economic developments in the global economy which have caused the recent appreciation of the Australian dollar.

4

End of Question 22

Question 23 (10 marks)

Marks

The following information concerns the role of fiscal policy and the Federal Budget.

“This budget delivers for working families and assists them in dealing with rising costs of living. The budget outlines far-sighted steps to address the long-term challenges of education, skills, infrastructure, health and climate change.”

Source: Commonwealth of Australia, Budget Paper No. 1, 2008 – 2009.

- (a) Outline TWO main objectives of fiscal policy in Australia.

2

- (b) Explain how the government uses fiscal policy to influence the level of economic activity in Australia.

3

Question 23 continues on the next page

Question 23 (continued)

Marks

- (c) Analyse the effects of sustained fiscal surpluses on the Australian economy.

5

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End of Question 23

Question 24 (10 marks)**Marks**

The following table and extract relate to the Australian labour force and labour market.

Year	Part Time Employed Persons	Full Time Employed Persons	Total Unemployed Persons
2004-05	2,787,900	7,038,500	540,500
2005-06	2,881,700	7,182,600	527,100
2006-07	2,941,200	7,393,300	489,000

Source: Australian Bureau of Statistics (2008), *Australian Economic Indicators*, June 2008.

“The Australian labour market is the tightest it has been in a generation, with skill and labour shortages pushing up labour costs and contributing to inflationary pressures.”

Source: Commonwealth of Australia (2008), Budget Paper No. 1.

- (a) State the formula for calculating the unemployment rate.

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- (b) Using the statistics in the table, calculate the unemployment rate for Australia in 2006-07.

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- (c) Outline TWO reasons for the falling level of unemployment in Australia between 2004-05 and 2006-07.

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Question 24 continues on the next page

Question 24 (continued)

Marks

- (d) Explain TWO causes of the skills shortage in the Australian labour market.

2

[illegible]

- (e) Explain ONE policy the Australian government could implement to overcome the skills shortage in the short term and ONE policy to overcome the skills shortage in the long term.

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End of Section II

Section III**Total Marks (20)****Attempt either Question 25 or Question 26****Allow about 35 minutes for this section**

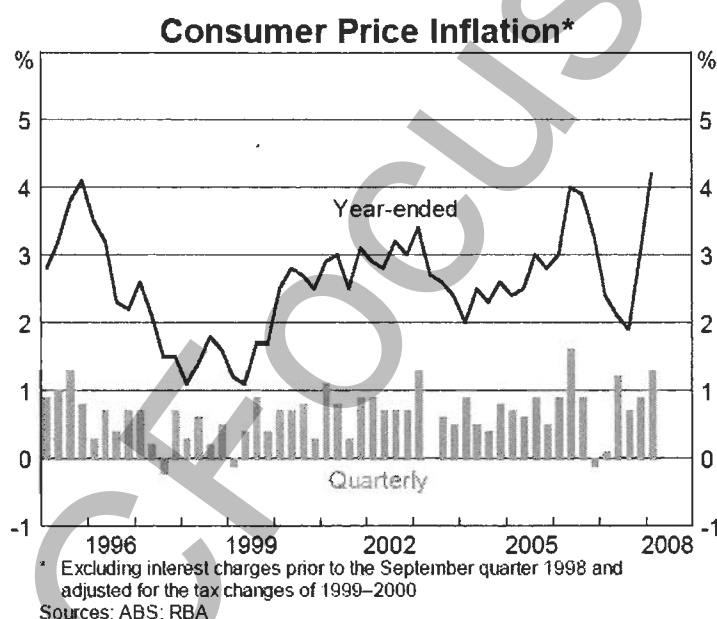
Answer the question on your own paper or in a writing booklet, if provided. Start the question on a new page.

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)

Discuss the causes of inflation and analyse the effectiveness of monetary policy in achieving price stability in the Australian economy.



“Inflation increased over 2007, and in underlying terms reached the highest rate for 15 years or more. It is true that it was boosted by the international rise in oil and other commodity prices, but Australia’s inflation rate has risen more than most of those in our usual peer group when measured on a comparable basis. It is also pretty clear that strong domestic factors were at work, with growth in local demand at a pace exceeding, by a large margin, any plausible estimate of the economy’s long run potential rate of growth for output, at a time when capacity was already tight. So inflation has picked up and over time needs to be reduced.”

Source: Statement by Glenn Stevens, Governor of the Reserve Bank, June 2008.

OR
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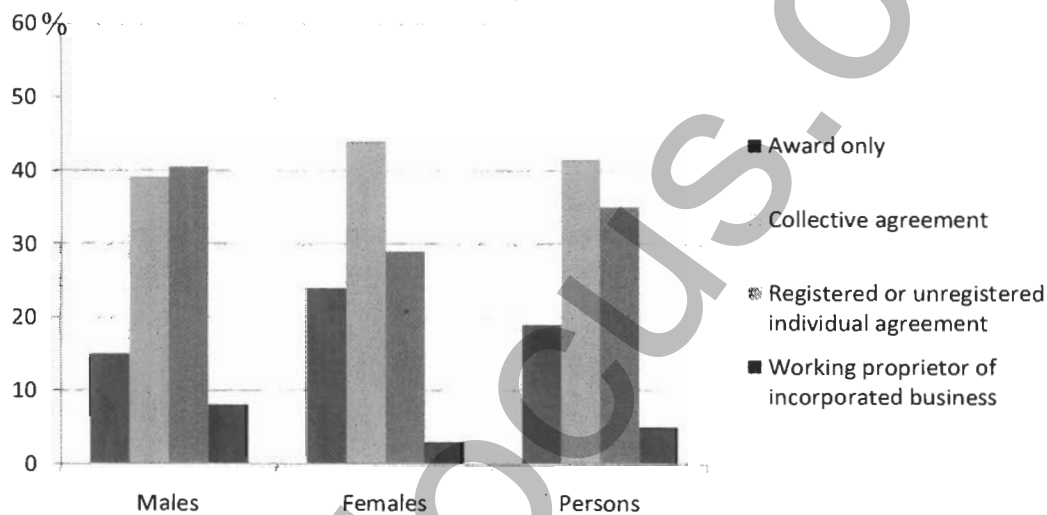
In your answer you will be assessed on how well you:

- 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)

Discuss the main features of the current Australian industrial relations system and its impact on productivity and Australia's economic performance.

Methods of Setting Pay in Australia 2006



Source: ABS (2007), Employee Hours and Earnings.

“The last decade and a half has witnessed significant changes to the regulation of workplace relations in Australia. These have largely been directed at facilitating the more flexible organisation of work according to the circumstances of individual enterprises and workers. Greater workplace flexibility expands employment opportunities and helps to underpin improvements in productivity.”

Source: Productivity Commission (2006-07), *Annual Report*.

“The ultimate test of labour market reform is its effects on improving the efficiency of the economy, with higher levels of labour productivity and participation, which provide the means to deliver higher incomes and lower unemployment.”

Source: Commonwealth of Australia (2008), Budget Paper No. 1.

End of Section III

Section IV

Total Marks (20)

Attempt either Question 27 or Question 28

Allow about 35 minutes for this section

Answer the question on your own paper or in a writing booklet, if provided. Start the question on a new page.

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)

Discuss the reasons why some countries and trading blocs protect their domestic industries and the benefits of the World Trade Organisation promoting free trade in the global economy.

OR

Question 28 (20 marks)

Explain how globalisation has led to variations in the standard of living and contrasts in the level of development between nations that make up the global economy.

End of paper