NAME: ....

TEACHER: ....

2009
TRIAL HIGHER SCHOOL CERTIFICATE
Reading Time 5min
Working time 3hrs

Economics

General Instructions

- Reading time – 5 minutes
- Working time – 3 hours
- Write using blue or black pen
- Board-approved calculators may be used

Section 1

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

Section 11

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

Section 111

Total marks (20)
Attempt either Question 25 or
Question 26
Allow about 35 minutes for this section

Section 1V

Total marks (20)
Attempt either Question 27 or
Question 28
Allow about 35 minutes for this section

SECTION I
Total marks (20)
Attempt Questions 1 –20
Allow about 35 minutes for this section

Answer the questions on the sheet provided

_____

1. Which is the most appropriate measure of the size of the global economy?

    A. The value of World Trade in US dollar terms based on purchasing power parity index (PPP)
    B. The value of wealth in US dollar terms based on purchasing power parity index (PPP)
    C. The value of GDP in US dollar terms based on purchasing power parity index (PPP)
    D. The value of world financial transactions in US dollar terms based on purchasing power parity index (PPP)

2. Which of the following events would put upward pressure on a floating Australia dollar?

    A. An increase in Australia's interest rates relative to overseas
    B. An increase in Australia's inflation rate relative to overseas
    C. A fall in Australia's terms of trade
    D. A fall in Australia's trade weighted index

3. Which of the following would decrease the level of protection in the world?

    A.   A fall in the production of goods
    B. An embargo on goods
    C. An increase in quotas
    D. A decrease in subsidies

4. What would the percentage of unemployment be if the number of unemployed is 750,000 and the total labour force is 15 000 000?

    A. 0.5%
    B. 5%
    C. 15%
    D. 20%

5   Which of the following best describes that part of the budget outcome which is due to non-discretionary fiscal policy?

    A. The cyclical component
    B. The structural component
    C. The domestic component
    D. The overseas component

The following table shows the population and GDP figures for different countries

Country	Population (millions)	GDP ($b)
A	120	10
B	300	30
C	240	15
D	55	5

6   Referring to the figures above, which country has the highest level of economic development?

    A.   Country A
    B.   Country B
    C.   Country C
    D.   Country D

7.   What is the value of equilibrium national income and the multiplier if $C = 2000 + 0.8Y$ and autonomous investment is 1000?

    A.   Equilibrium income is 5,000 and the multiplier is 3
    B.   Equilibrium income is 10,000 and the multiplier is 4
    C.   Equilibrium income is 15,000 and the multiplier is 5
    D.   Equilibrium income is 20,000 and the multiplier is 6

8   How would a fall in interest rates on foreign loans initially affect the Balance of Payments?

    A.   Income credits would increase
    B.   Income credits would decrease
    C.   Income debits would increase
    D.   Income debits would decrease

9.   What is the difference between the value of a country's exports and imports known as?

    A.   Balance of trade
    B.   Capital and financial account
    C.   Current account
    D.   Balance of payments

10   What is the opportunity cost of unemployment?

    A.   The wages lost by being unemployed
    B.   The unemployment benefits that have to be paid
    C.   The lost output that occurs from unemployment
    D.   Tax revenue lost from unemployed persons

11   Which policies does the Australian government use to redistribute income?

    A.   The provision of goods and services by public trading enterprises
    B.   Competition and environmental policies
    C.   Monetary and Fiscal policy
    D.   Taxation policy and social security transfers

12	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

13	What would be the most appropriate policy response to further reduce unemployment
	if the unemployment rate reached the natural rate of unemployment (NAIRU)?

     A.	Contractionary monetary policy
     B.	Increase the budget surplus
     C.	Reduce the budget deficit
     D.	Increase expenditure on retraining programs for the long term unemployed.

14	Which economic objectives are often in conflict?

     A.	Economic growth and low inflation
     B.	Economic growth and full employment
     C.	High inflation and low unemployment
     D.	Environment and low economic growth

In the following data an economy's equilibrium level of income is given by the equation
$Y = C + I + G + X - M.$

YEAR	200X
GDP	$600
CONSUMPTION	$420
INVESTMENT	$60
GOVERNMENT	$90
IMPORTS	$10

15	What would the balance of trade in the current account show?

     A.	A surplus of $20
     B.	A surplus of $30
     C.	A deficit of $20
     D.	A deficit of $30

16	When will real income increase?

     A.	Prices fall slower than nominal income
     B.	Prices fall faster than consumption
     C.	Prices rise slower than money income
     D.	Prices rising faster than productivity

The diagram shows two Lorenz curves
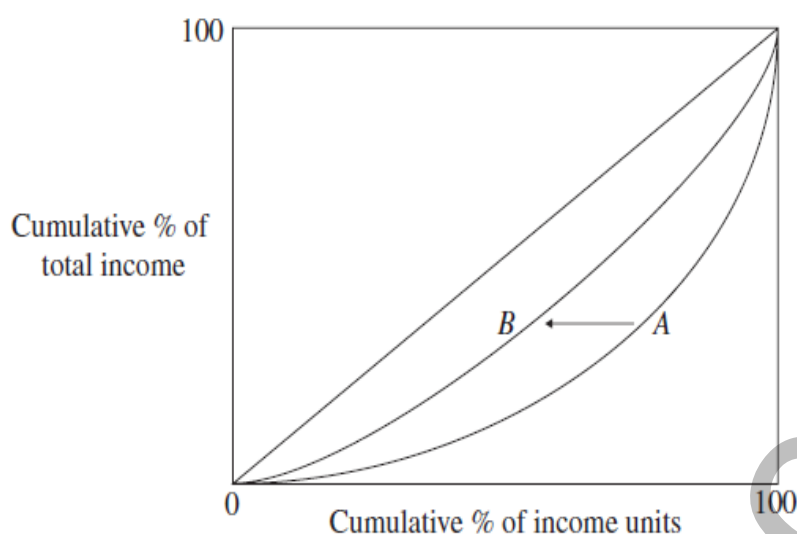
17   What effects would occur if the Lorenz curve moved from Curve A to Curve B?

    A.   The gini-coefficient would increase and income inequality would rise
    B.   The gini-coefficient would decrease and income inequality would rise
    C.   The gini-coefficient would decrease and income inequality would fall
    D.   The gini-coefficient would increase and income inequality would fall

18   Which of the following international organisations has as its main aim in providing financial assistance for economies experiencing financial difficulties

    A.   The World Bank
    B.   International Monetary Fund (IMF)
    C.   World Trade Organisation (WTO)
    D.   The organisation for Economic Co-operation and development (OECD)

19   Which of the following would most likely improve Australia's international competitiveness in the long run?

    A.   A depreciation of the Australian dollar
    B.   Reduced transport costs in Australia
    C.   Reduced interest rates
    D.   A larger budget deficit

20.   Which of the following represents a counter cyclical policy?

    A.   Decreasing interest rates during a boom
    B.   Increasing interest rates during a recession
    C.   Deliberately increasing a budget deficit during a recession
    D.   Deliberately increasing government spending during a boom
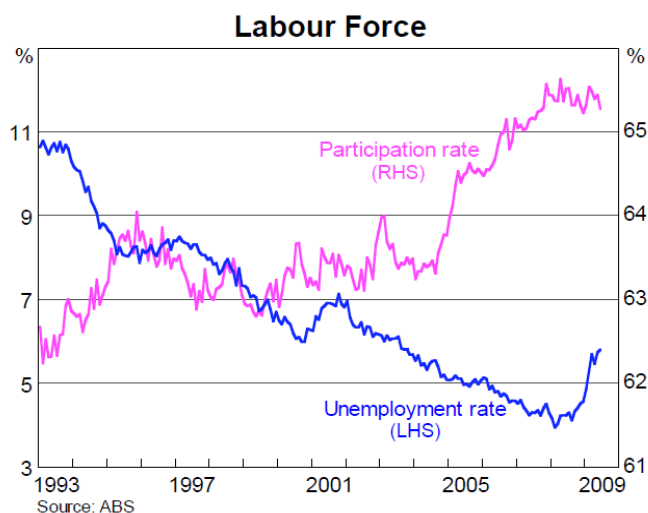
Section 11
Total marks (40)
Attempt Questions 21 – 24
Allow about 1 hour and 15 minutes for this section

Answer the questions in the spaces provided
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Question 21   (10 marks)

Use the data below to answer the following questions.

Labour Force

Source: ABS

Labour Force Data	Number of Persons (millions)
Employed Persons	18
Unemployed Persons	2
Working Age Population	32
Total Population	40

(a)   *Using the Labour Force Data, calculate the unemployment rate for this nation.*   *1 mark*
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(b)   *Using the Labour Force Data, calculate the labour force participation rate.*   *1 mark*
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(c)   *Outline* **ONE** *economic and* **ONE** *social cost created by unemployment.*   *2 marks*
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(d)   *Explain what is meant by* **'structural unemployment'** *and identify a possible cause of it.*   *1 mark*
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(e)   *Explain what is meant by* **'hidden unemployment'** *and identify a possible cause of it.*   *1 mark*
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(f)   Discuss **TWO** policy options available to the government in attempting to reduce the level of
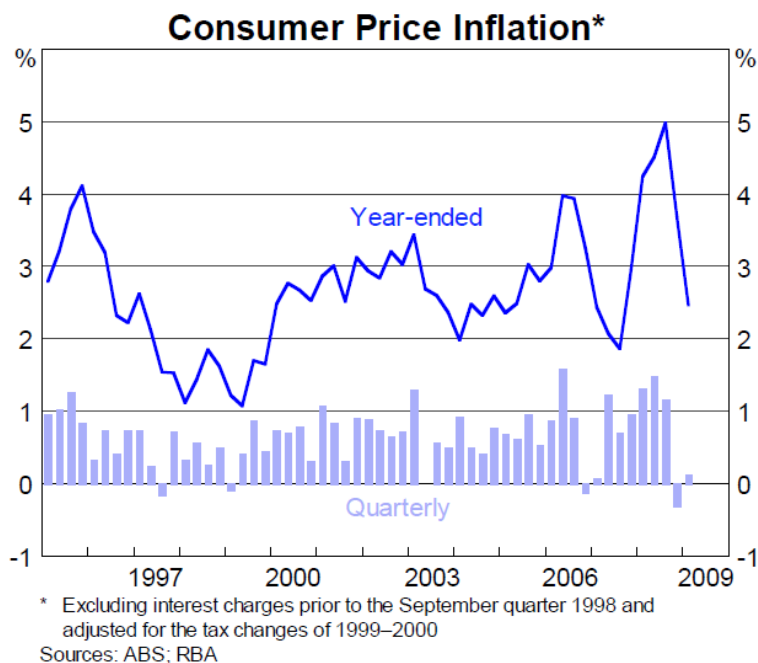   unemployment in Australia.   4 marks

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Question 22   *(10 marks)*

Use the data below to answer the following questions.

Consumer Price Inflation*

* Excluding interest charges prior to the September quarter 1998 and adjusted for the tax changes of 1999–2000
Sources: ABS; RBA

Inflation fall the biggest on record
Australia's inflation rate has collapsed from 5 per cent to just 1.5 per cent in less than a year-the most dramatic slide on record..., the Treasurer, Wayne Swan, sees it as a sign of weakness, of an economy under siege....
"It's a reminder of the impact of the global recession'...The Reserve has few worries about inflation at the moment and will be in no rush to tighten the screws to head it off.

S.M.H. 23-07-09

(a)   *What is 'inflation'?*   *1 mark*

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(b)   *How is 'inflation' measured?*   *1 mark*

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(c)   *Briefly explain **TWO** causes of inflation.*   *2 marks*

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(d)   *Identify and account for the trends in inflation the Australian economy experienced between 2003 and 2009.*   *2 marks*

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(e) *Discuss **TWO** impacts of long term high inflation on the Australian economy.* *2 marks*
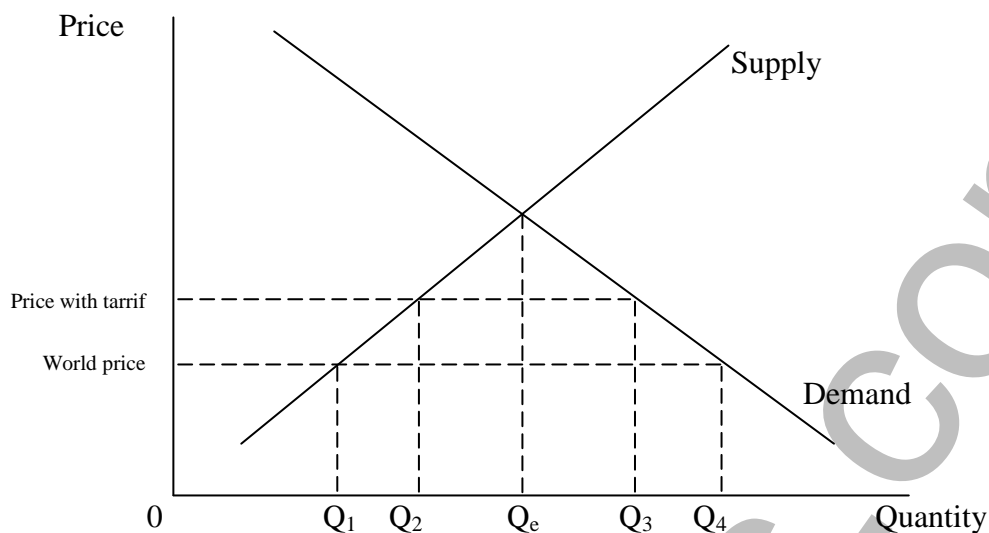
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(f) *Outline **ONE** policy strategy the Australian government pursued during 2004-2008 to combat*
inflationary trends. *2 marks*

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Question 23 (10 marks)

The following question refers to the graph below

a)   What is meant by the term "trade protection"?   1

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b)   From the graph above, calculate the amount of domestic supply if the price was   1
       set at World Price level.

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c)   Outline ONE COST and ONE BENEFIT of the government's decision to   2
       introduce a tariff for this product.

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d)   From the diagram above, calculate the change in the level of imports <u>after</u> the   1
       imposition of the tariff.

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e)   Explain why the Australian government has adopted a policy of free trade.   2

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f)   Explain why Australia has pursued bilateral agreements in recent years to boost its   3
     trade potential.

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Question 24 (10 marks)

Figure 4.1: Sectoral Composition of Australia's Exports of Goods and Services 2007-08

Rural 10.9%
Mining 42.6%
Manufacturing 24.9%
Services 21.6%

Source: ABS (2008), Balance of Payments and International Investment Position, Catalogue 5302.0, September.

a) What is meant by the term "global trade"?   1

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b) Describe how the direction of Australia's trade has changed.   2

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c) Using the table above, outline how the composition of Australia's trade has changed   3

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(d) Define the "terms of trade".   1

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e)   Explain how an improvement in Australia's terms of trade can assist its   3
         trade balance.

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Section 111
Total marks (20)
Attempt either Question 25 or Question 26
Allow about 35 minutes for this section.

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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.

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Question 25 (20 marks)

Discuss the use of fiscal policy in assisting the federal government to achieve its economic objectives.

> Employment growth was forecast to contract 1.5 per cent in the year to the June quarter of 2010 before growing by 0.5 per cent the year after. Meanwhile, Treasury expects inflation to continue to moderate, with both the headline and underlying consumer price index to slow to 1.75 per cent in the year to the June quarter of 2010.

Social security and welfare $110,994 million

Community services and culture $12,188 million

Health $51,223 million

Infrastructure, transport and energy $13,886 million

Defence $20,952 million

Education $35,222 million

Industry and workforce $13,271 million

General government services $80,478 million
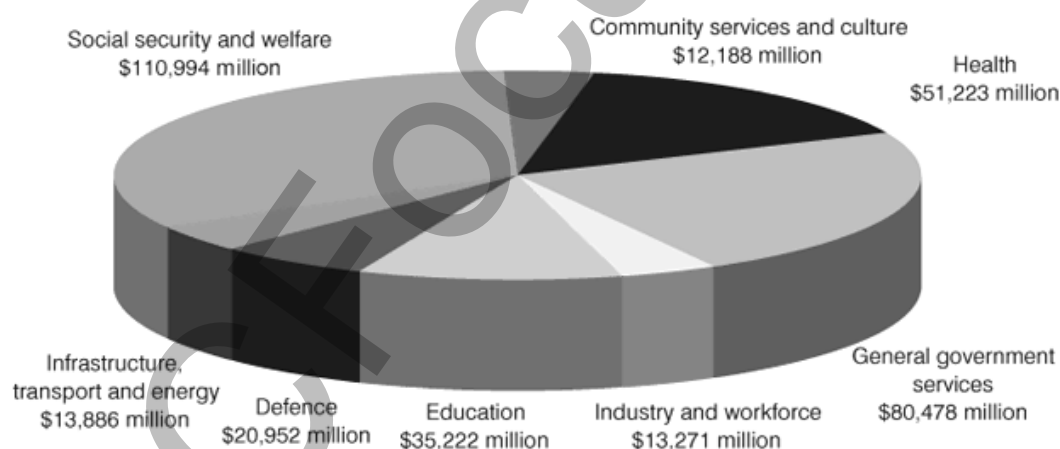
> *"The 2009-10 Budget has been framed against the backdrop of the deepest global recession since the Great Depression. Early and decisive policy action by the Australian Government and the Reserve Bank of Australia is helping to support the Australian economy. However, the magnitude and ferocity of the global recession means that policy can mitigate only the worst effects of global conditions."*
>
> 2009-2010 Budget Papers

OR

Question 26 (20 marks)

Discuss the use of the federal government's microeconomic policy agenda in assisting the economy to improve productivity and international competitiveness.

> *"Australia's productivity growth has surged in the 1990s, according to ABS estimates. The rate of productivity growth since 1993-94 has been measured at double its previous average. Much of the improved productivity performance appears to be coming from a transformation in the production side of the Australian economy since the 1980s and the transformation of the economy due to microeconomic reform."*
>
> Productivity Commission 1999

Section IV
Total marks (20)
Attempt either Question 27 or Question 28
Allow about 35 minutes for this section

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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 impact that globalisation has had on economic development strategies in any economy other than Australia.

OR

Question 28   (20 marks)

Analyse the causes of Australia's on-going current account deficit and its effects on external stability.

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. Fill in the response oval completely.

1. A ⬭   B ⬭   C ⬭   D ⬭

2. A ⬭   B ⬭   C ⬭   D ⬭

3. A ⬭   B ⬭   C ⬭   D ⬭

4. A ⬭   B ⬭   C ⬭   D ⬭

5. A ⬭   B ⬭   C ⬭   D ⬭

6. A ⬭   B ⬭   C ⬭   D ⬭

7. A ⬭   B ⬭   C ⬭   D ⬭

8. A ⬭   B ⬭   C ⬭   D ⬭

9. A ⬭   B ⬭   C ⬭   D ⬭

10. A ⬭   B ⬭   C ⬭   D ⬭

11. A ⬭   B ⬭   C ⬭   D ⬭

12. A ⬭   B ⬭   C ⬭   D ⬭

13. A ⬭   B ⬭   C ⬭   D ⬭

14. A ⬭   B ⬭   C ⬭   D ⬭

15. A ⬭   B ⬭   C ⬭   D ⬭

16. A ⬭   B ⬭   C ⬭   D ⬭

17. A ⬭   B ⬭   C ⬭   D ⬭

18. A ⬭   B ⬭   C ⬭   D ⬭

19. A ⬭   B ⬭   C ⬭   D ⬭

20. A ⬭   B ⬭   C ⬭   D ⬭