<u>Australia's trade and financial flows, Balance of Payments and free trade and protection – Past HSC questions 2011-2007</u>

Marking guide and notes from marking centre included

4 The table shows selected data for an economy.

Component	*\$ billion* (\$bn)
Government spending	30
Investment	25
Saving	30
Exports	30
Taxation	20
Imports	35

Which of the following statements is true for this economy?

(A) The economy is contracting.

(B) Injections exceed withdrawals.

(C) Withdrawals exceed injections.

(D) The economy is in equilibrium.

7 The table shows data for a nation's terms of trade.

Year	*Export Price Index*	*Import Price Index*
1	110	100
2	105	100

All other things being equal, which of the following policy actions is most likely to reduce the economic impact of the change in the nation's terms of trade?

(A) The Reserve Bank increases interest rates.

(B) The Government increases income tax rates.

(C) The Government increases discretionary expenditure.

(D) The Reserve Bank intervenes to increase the value of the currency.

14 In which of these situations are the net foreign liabilities of an economy most likely to increase?

(A) Current account deficit and currency appreciation

(B) Current account deficit and currency depreciation

(C) Current account surplus and currency appreciation

(D) Current account surplus and currency depreciation

15 The table shows Balance of Payments data for a hypothetical economy with a floating exchange rate.

Balance of Payments (BoP)	*$ billion* ($bn)
Net Goods	–15
Net Services	5
Net Income	–50
Capital Account	5
Net Current Transfers	5

What is the value of the Financial Account?

(A) $45bn

(B) $50bn

(C) $55bn

(D) $60bn

(a) The table shows current account data for an economy.

Component	*Year 1* ($bn)	*Year 2* ($bn)
Exports of goods and services	250	300
Imports of goods and services	275	350
Net Income	–50	–60
Net Current Transfers	–5	–5

(i) Calculate the change in the current account balance from *Year 1* to *Year 2*. **2**

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(ii) Outline ONE factor that may have caused the change in the Net Income component of the current account. **2**

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(iii) Outline ONE factor that may have caused the change in the Imports component of the current account. **2**

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Question 22 (continued)

(b) Why does Australia have a persistently high current account deficit? **4**

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3 The table shows selected data for an economy.

Balance of Payments items	*$ billion* ($bn)
Exports	500
Imports	540
Net services	–70
Net income	–115
Net current transfers	85
Capital transfers	30
Reserve Assets	–20

According to the information in the table, which statement is correct for the economy if it has a floating exchange rate?

(A) There is a deficit of $225bn on the balance of goods and services.

(B) There is a surplus of $140bn on the capital and financial account.

(C) There is a surplus of $950bn on the current account.

(D) There is a deficit of $10bn on the capital account.

Question 21 (10 marks)

(a) The table shows data for a nation's terms of trade.

Year	*Export Price Index*	*Import Price Index*
1	100	100
2	92	115
3	96	116

Using the information in the table, calculate the terms of trade for this nation in Year 2 and identify the trend from Year 2 to Year 3. **2**

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(b) Why has there been an increase in Australia's service exports in the last two decades? **2**

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Question 21 (continued)

(c) Why has the value of Australia's imports from Asia increased in the last two decades? **2**

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(d) Explain why Australia is consistently a net importer of capital. **4**

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2 How are the foreign company dividends paid to Australian investors recorded on Australia's Balance of Payments?

(A) As a debit on the current account

(B) As a credit on the current account

(C) As a debit on the capital and financial account

(D) As a credit on the capital and financial account

5 The table shows data for a nation's terms of trade.

Year	*Export Price Index*	*Import Price Index*
1	100	100
2	110	106
3	115	110

Which of the following statements about this nation's terms of trade is correct?

(A) They improved from Year 1 through to Year 3.

(B) They deteriorated from Year 1 through to Year 3.

(C) They deteriorated from Year 1 to Year 2 and then improved from Year 2 to Year 3.

(D) They improved from Year 1 to Year 2 and then deteriorated from Year 2 to Year 3.

9 Which of the following is most likely to improve Australia's international competitiveness?

(A) Implementation of structural change

(B) An increase in domestic interest rates

(C) An improvement in the terms of trade

(D) An increase in the value of the Australian dollar

4 What has contributed to Australia's persistent current account deficit?

(A) Ongoing federal budget surpluses

(B) Australia's low national savings rate

(C) The high level of diversification of Australia's exports

(D) A reduction in dividend payments to foreign investors

5 The table shows selected data for an economy.

Balance of payments items	*$ billion* ($bn)
Exports	400
Imports	460
Net services	–50
Net income	–110
Net current transfers	70

According to the data, which statement is correct for an economy with a floating exchange rate?

(A) There is a surplus of $150bn on the capital and financial account.

(B) There is a deficit of $150bn on the capital and financial account.

(C) There is a surplus of $290bn on the current account.

(D) There is a deficit of $290bn on the current account.

15 An economy is a net importer of commodities and a net exporter of manufactured goods.

Which of the following will lead to a deterioration in its terms of trade?

(A) The volume of manufactured exports increases relative to the volume of commodity imports.

(B) The volume of manufactured exports decreases relative to the volume of commodity imports.

(C) The prices for commodities increase relative to prices for manufactured goods on world markets.

(D) The prices for manufactured goods increase relative to commodity prices on world markets.

Question 24 (continued)

(b) The table shows current account data for Australia. **3**

Australia's current account balance 2006–07
($m)

Balance on Goods and Services		–12 033
Income		
Credits	32 873	
Debits	–79 585	
Net Income		–46 712
Net current transfers		–444
Balance on the current account		–59 189

Source: *Australian Bureau of Statistics*

Using the data, briefly explain how Net Income affects the current account balance.

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Question 24 (continued)

(c) Analyse TWO possible economic consequences of foreign debt for an economy. **5**

13 Which of the following could be recorded as a credit in the current account of the Australian balance of payments?

(A) Expenditure on imports

(B) Interest paid to Australian lenders

(C) Dividends paid to foreign investors

(D) Foreign aid from the Australian government for capital works in Thailand

14 The table shows selected data for a hypothetical economy.

Year	*Export price index*	*Import price index*
1	100	100
2	110	105
3	130	140

Which statement is correct for this economy?

(A) In Year 2 import prices rose faster than export prices.

(B) In Year 3 export prices rose faster than import prices.

(C) In Year 3 a given volume of exports will buy a larger volume of imports.

(D) In Year 3 a given volume of exports will buy a smaller volume of imports.

(c) The government of a country that trades with Australia reduces subsidy payments to its farmers. Discuss the economic impact of this action on BOTH economies. **5**