

STUDENT NAME: _____ TEACHER: _____

SAINT IGNATIUS' COLLEGE

RIVERVIEW



TRIAL H.S.C. EXAMINATION

2010

ECONOMICS

General Instructions

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

Section I

20 marks

- Attempt questions 1 – 20
- Allow about 35 minutes for this section

Section II

40 marks

- Attempt questions 21 – 24
- Allow about 1 hour & 15 minutes for this section
- Answer in the spaces provided on the question paper

Section III

20 marks

- Attempt either Question 25 or 26
- Allow about 35 minutes for this section
- Answer in a separate booklet or on a new sheet of paper

Section IV

20 marks

- Attempt either Question 27 or 28
- Allow about 35 minutes for this section
- Answer in a separate booklet or on a new sheet of paper

Section I
20 Marks

- Answer all questions on the separate multiple choice answer sheet provided
 - Allow about 35 minutes for this section
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Q1 Which of the following statements concerning bilateral trade agreements is correct?

- (A) They are open to all nations
- (B) They are preferential in their nature
- (C) They involve more than two member nations
- (D) The EU and NAFTA are examples of bilateral agreements

Q2 Which statement about the Trade Weighted Index is correct?

- (A) It is a bilateral measurement of our exchange rate
- (B) It weights currencies according to their significance to our trade flows.
- (C) It is not as accurate a measure of our exchange rate as other bilateral measures
- (D) The currencies of Malaysia and New Zealand make up a larger part of the index than Japan and China.

Q3 What is the equilibrium level of income if $C = 150 + .8Y$ & $I = 50$?

- (A) 150
- (B) 250
- (C) 500
- (D) 1000

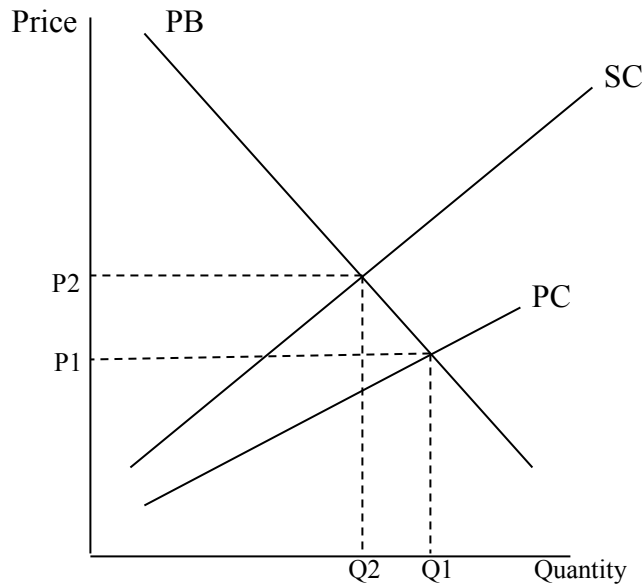
Q4 What is the role of the International Monetary Fund?

- (A) To encourage multilateral trade talks
- (B) To reduce fluctuation in global currencies
- (C) To provide assistance to developing countries
- (D) To promote stability in the global financial system

- Q5 Production firms in an economy are faced with increased costs for their raw materials.
What type of inflation will this cause?
- (A) Cost push inflation
 - (B) Demand pull inflation
 - (C) Imported inflation
 - (D) Materials inflation
- Q6 The government is aiming to improve efficiencies in factor markets.
Which of the following strategies could they use to achieve their aim?
- (A) Encourage competition through regulation
 - (B) Use monetary policy to reduce the cash rate
 - (C) Deregulate financial markets to increase competition
 - (D) Reduce tariffs so that imported goods become cheaper
- Q7 Which of the following events would have a positive impact on the international competitiveness of Australian economy?
- (A) An appreciation of the \$AUD
 - (B) An increase in the Australian cash rate
 - (C) An increase in inflation in export competing countries
 - (D) A decrease in productivity in the Australian labour force
- Q8 An Australian firm increases profitability in its global subsidiaries.
How would this profit be recorded when the firm transfers it back to Australia?
- (A) As a debit on the Australian current account
 - (B) As a credit on the Australian current account
 - (C) As a credit on the Australian capital and financial account
 - (D) As a debit on the Australian capital and financial account

- Q9 What is the impact of a depreciating Australian dollar?
- (A) An increase in the purchase of imports
 - (B) Increased international investor confidence
 - (C) An increase in the servicing cost of foreign debt
 - (D) An increase in foreign direct investment by Australians overseas
- Q10 What is the effect of Japan increasing its quota on the importation of Australian beef?
- (A) Australian beef farmers will gain increased access to Japanese beef markets.
 - (B) Japanese beef farmers will gain increased protection from Australian beef farmers
 - (C) There will be an increase in employment opportunities in the Japanese beef industry
 - (D) There will be an increase in sales of Japanese beef in the Japanese beef market
- Q11 Which of the following combinations of economic policies might lead to a change in the Gini coefficient from 0.311 to 0.302?
- (A) A decrease in unemployment benefits and a decrease in the marginal tax rate for high income groups
 - (B) A decrease in unemployment benefits and an increase in the marginal tax rate for high income groups
 - (C) An increase in unemployment benefits and an increase in the marginal tax rate for high income groups
 - (D) An increase in unemployment benefits and a decrease in the marginal tax rate for high income groups

Q12 The following diagram refers to the supply and demand of product with negative externalities?



Which of the following is the result of the failure of the market to take into account the social costs of production?

- (A) Market output of Q_2 is less than the socially optimal output of Q_1
- (B) The socially optimal price of P_1 is lower than the market price of P_2
- (C) The market price of P_1 is lower than the socially optimal price of P_2
- (D) Market prices are higher and output is lower than socially optimal prices and output

Q13 Which of the following government policy measures could be used to correct the market failure for a product with negative externalities?

- (A) Applying a tax on production
- (B) Subsidies paid to domestic producers
- (C) Deregulation of the market to encourage efficiency
- (D) Government provision of unprofitable public goods

- Q14 Which of the following might be features of a developing economy that was experiencing economic growth but not economic development?
- (A) Increasing GDP with falling life expectancy at birth
 - (B) A rising Human Development Index and increasing GDP
 - (C) Stable GDP per capita with increasing levels of infant mortality
 - (D) Falling levels of adult literacy and a rising Human Development Index
- Q15 Which of the following is an invalid economic argument used to justify protection.
- (A) The infant industry argument.
 - (B) To protection against dumping.
 - (C) To protect domestic employment.
 - (D) The military self-sufficiency argument
- Q16 Deregulation of financial markets has:
- (A) led to higher interest rates in Australia.
 - (B) helped to reduce the current account deficit.
 - (C) reduced the effectiveness of monetary policy but increased the effectiveness of fiscal policy.
 - (D) increased competition and efficiency in financial markets
- Q17 Which of the following is a trend in Australia's international financial flows?
- (A) A shift from direct investment to portfolio investment over the last 20 years.
 - (B) A reduction in international financial flows since deregulation of the Australian dollar.
 - (C) Australians have invested more overseas than overseas has invested in Australia.
 - (D) The importance of financial inflows has decreased as the Australian economy has grown.

- Q18 Which of the following would be classified as portfolio investment in the Balance of Payments?
- (A) The purchase of shares in Australian companies by overseas investors
 - (B) The establishment of a new subsidiary by a foreign firm in Australia
 - (C) The purchase of Australian property through an overseas financial institution
 - (D) The purchase of Commonwealth Government Securities

- Q19 The following data refers to a hypothetical economy.

	CPI
Year 1	100
Year 2	120
Year 3	150

What was the inflation rate in Year 3?

- (A) 20%
 - (B) 25%
 - (C) 30%
 - (D) 50%
- Q20 Which of the following is a means of financing a budget deficit?
- (A) Reducing the level of government expenditure.
 - (B) Increasing the level of personal income tax.
 - (C) Increasing the level of infrastructure development.
 - (D) Borrowing from the public.

Section III

Stimulus Essay

- Allow about 35 minutes for this section
 - Answer the question in the writing booklet provided
 - Answer Question 25 OR 26
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In your answer you will be assessed on how well you:

- demonstrate knowledge and understanding relevant to the question
 - use the information provided
 - apply relevant economic terms, concepts, relationships and theory
 - present a sustained, logical and cohesive response
-

Question 25

Outline the economic and social costs of income inequality and analyse the effectiveness of government policies used to address income inequality in the economy. In your answer, use the economic information provided.

	Lowest 20%	Second quintile	Third quintile	Fourth quintile	Highest quintile
Private Income	0.8	8.9	17.0	25.7	47.6
Taxes	5.6	9.0	15.4	23.3	46.7
Benefits	41.1	23.0	15.5	11.5	9.0
Final Income	14.0	14.2	17.0	21.2	33.5

Adapted from ABS Cat. 6537 2003-04

According to a recent Roy Morgan poll, 88 per cent of Australians believe the gap between rich and poor is growing. They're right - it is. For a start, the changes governments make to taxes and benefits - the Hawke government's big cut in the top rate of income tax, the Howard Government's GST, for instance - attract a lot of debate about whether they favour high or low income earners.

But though such changes can influence the position a bit - for good or ill - they're not the basic factor affecting the gap between rich and poor. No, the greatest single cause of income inequality in our society is the differences in how much people earn from selling their labour.

R. Gittins, SMH, June 4 – 2009.

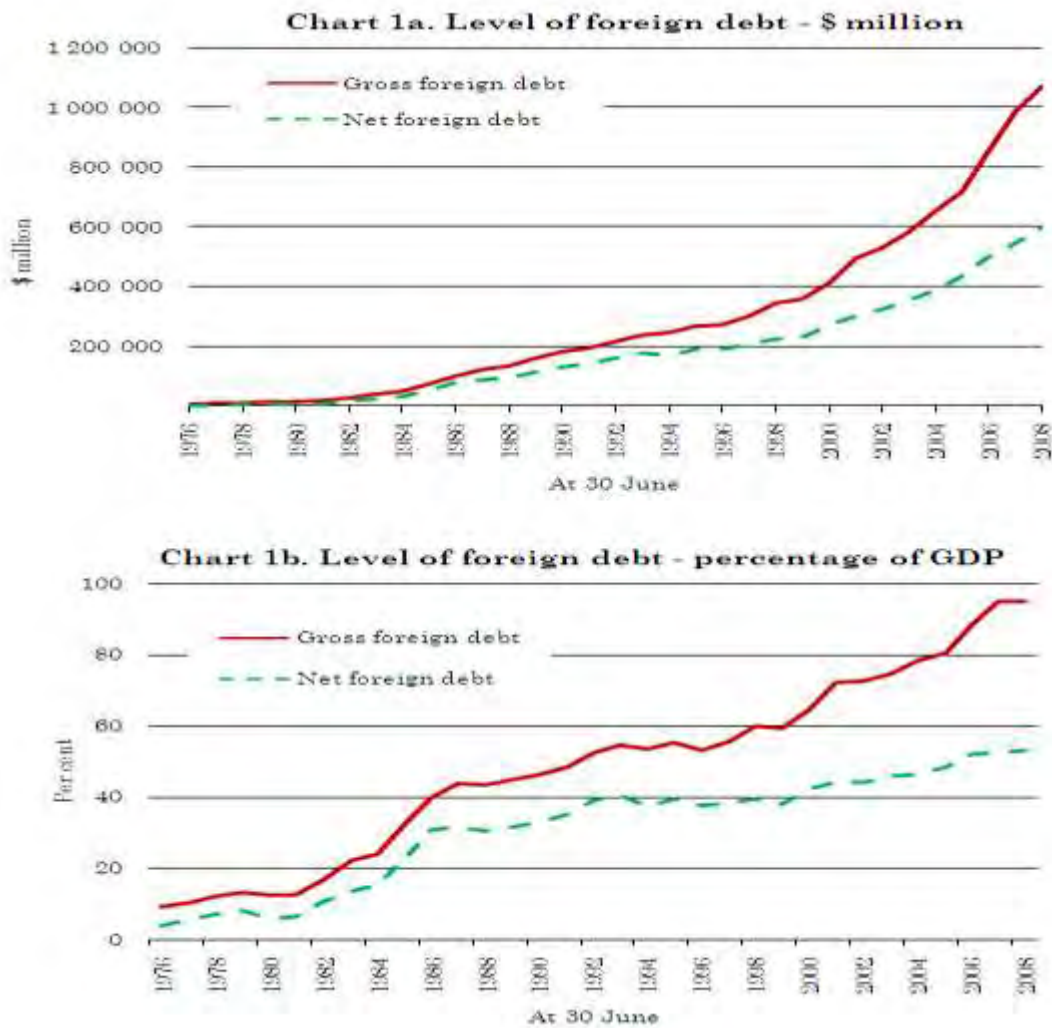
Question 26

Outline the recent trends in Australia's balance of payments and analyse the impact of structural change, foreign debt and the terms of trade on the balance of payments. In your answer, use the economic information provided.

"The terms of trade are forecast to rise by 17 per cent in 2010-11 to around their highest levels on record before declining as expected increases in global supply start to moderate commodity price pressures."

The terms of trade increase is also expected to provide momentum to a forecast improvement in business investment, especially in the resources and mining sectors.

The Australian July 15 – 2010



Source: www.abs.gov.au

Section IV
Extended Response
Total Marks (20)
Attempt either question 27 OR 28
Allow about 35 minutes for this section

Answer the question in the separate writing booklet provided.

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

- demonstrate knowledge and understanding relevant to the question
 - apply relevant economic information, terms, concepts, relationships and theory
 - present a sustained, logical and cohesive response
-

EITHER

Question 27

Explain the impact of globalisation on an economy other than Australia and describe the strategies this government is using to promote economic growth and development under these conditions.

OR

Question 28

Explain the role of monetary policy in achieving the economic goals of full employment, low inflation and economic growth as the Australian economy emerges from the GFC.

CANDIDATE NUMBER:
TEACHER'S INITIALS.....

Section II

40 marks

Attempt Questions 21-24

- Answer each question in the spaces provided
- Allow about 75 minutes for this section

Question 21 (10 marks)

Marks

The following are statistics for a hypothetical economy.

	September 1999	September 2000
Employed Persons ('000)	8791	9061
Unemployed persons ('000)	661	576
Working Age Population ('000)	14979	15197
Unemployment Rate (%)	?	?
Inflation Rate	1.7%	6.1%
Cash Rate	4.75 %	6.25%

(a) Calculate the unemployment rate in both September 1999 and September 2000 and show working. Your answer must be accurate to 2 decimal places.

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(b) Explain ONE possible reason that the Central Bank increased the cash rate in this economy over the period from September 1999 to September 2000.

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Question 21 (continued)

(c) Given the unemployment and inflation figures above, explain the trend in wages that you would expect to see in this economy between September 1999 and September 2000.

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(d) Define the term NAIRU and use the data above to discern whether this hypothetical economy is more likely to be operating below or above the NAIRU.

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Question 22 (10 marks)

Marks

Use the following data below



- (a) Using the exchange rate data above, explain which month best suited Australian exporters.

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- (b) Outline one possible reason for the movement of the Australian dollar as seen throughout October 2009.

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(c) Define the Trade Weighted Index [TWI]. All other things being equal, explain what would happen to Australia's TWI during the month of May in the above example.

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(d) Explain what probably happened to the RBA's holdings of foreign currency during the month of May if it was operating a dirty float.

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CANDIDATE NUMBER:
TEACHER'S INITIALS:.....

Question 23 (10 marks)

Marks

Year	Income (\$m)	Consumption (\$m)	Savings (\$m)	Investment (\$m)
1	400	360	40	200
2	500	440	60	200
3	600	520	80	200

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

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(b) Using the information in the table, calculate the value of the multiplier.

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(c) Given a rise of \$30m in autonomous investment in Year 4, calculate the value of income.

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(d) Outline how the multiplier process increases national income.

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(e) Explain how one current *domestic* influence and one current *global* influence affect Australia's economic growth.

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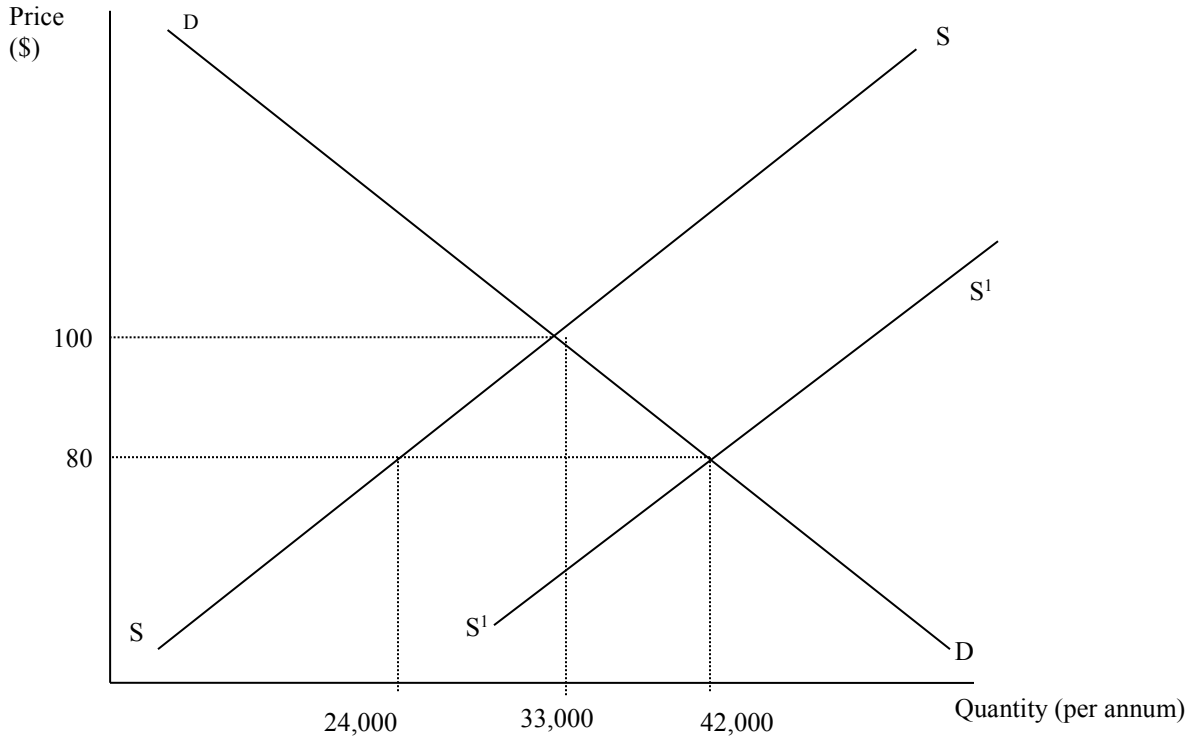
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Question 24 (10 marks)

Marks

The following diagram shows the equilibrium price, \$100, and quantity, 33,000, in a domestic economy for DVD players in which domestic producers are protected by subsidy.



- (a) Explain why the supply curve shifts from SS to S1S1 after the subsidy has been introduced. **2**

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Question 24 (continued)

(b) Outline TWO reasons why imposing a subsidy as a form of protection is preferable to imposing a tariff.

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(c) Discuss the impact on global trade flows of one contemporary trading bloc or agreement.

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(d) Outline two reasons why Australia has progressively reduced or abolished the subsidies paid to its producers over the past two decades.

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Marking Criteria – 2010 TRIAL EXAM - ECONOMICS

Question	Answer	Question	Answer
1	B	11	C
2	B	12	C
3	D	13	A
4	D	14	A
5	A	15	C
6	C	16	D
7	C	17	A
8	B	18	A
9	C	19	B
10	A	20	D

Question 21

Suggested Answer	Mark/Criteria
<p>a. Sept 99 – $661,000/9,452,000 \times 100 = 6.99\%$ Sept 2000 – $576,000/9,061,000 \times 100 = 5.98\%$</p>	1mk for each measurement
<p>b. An increase in the inflation rate OR an increase in economic growth & the rate slow aggregate demand..</p>	2mks for correct explanation
<p>c. You would expect to see increased wage pressure as demand grows for wages to keep pace with the CPI. There is also evidence that U_e is falling & therefore less labour in the market leading to wage growth.</p>	2mks for full explanation
<p>d. NAIRU is the non accelerating inflation rate of unemployment. Also known as the natural or full rate of employment. The rate at which there is no cyclical unemployment in the economy. It appears that the economy is below the NAIRU as the small fall in unemployment has been accompanied by a much larger rise in inflation. Hence, the unemployment fall has created inflationary pressure.</p>	<p>3-4: for definition & explanation</p> <p>1-2: definition or explanation only.</p>

Question 22

Suggested Answer	Mark/Criteria
a. May...the AUD is at its lowest point and as a result our exports are at their most competitive level.	1 identifying month & 1 for reason.
b. Anything that increases demand for the AUD such as: increased export purchases, increased foreign investment either direct or portfolio	2: correct identification & outline
c. TWI: an indexed measure of Australia's major trading partners weighted according to their relative importance as trading partners. The TWI would ordinarily be expected to drop given the relative importance in trade of the USA.	2: definition 1: effect on TWI.
d. The RBA would try to reverse or slow the rapid depreciation of the AUD. To do this they would use their foreign currency reserves to purchase Australian dollars. This would have the effect of diminishing/reducing the holdings of foreign currency.	3: Clear explanation identifying cause & effect using correct terms 1-2: May lack terms or be descriptive

Question 23

Suggested Answer	Mark/Criteria
(a) Sustainable growth – rate of growth that does not result in higher demand pull inflation and/or blowout in CAD	2
Rate of growth maintained over a long term time period	1
(b) MPC = 0.8 therefore K= 5	1
(c) Change in income = \$30m x 5 = \$150m value of income in Year 4 is \$600+\$150 = \$750	1
(d) A change in level of expenditure will result in a more than proportionate change in national income via the multiplier. Over a time period, as income recipients spend part of their income it creates additional output, employment and income for others. Saving a part of income reduces the impact of the multiplier.	2
A simple definition of the multiplier without explanation	1
(e) Clearly explains both a current domestic and global influence affecting our growth. Suggested answer – <u>domestic influence</u> = fiscal stimulus, terms of trade effect, rising interest rates, <u>Global influence</u> = GFC, China’s export demand, European debt crisis	3-4
Explains only one influence	2
Identifies one influence only	1

Question 24

Suggested Answer	Mark/Criteria
(a) Explains reason why the supply curve has increased due to the subsidy – reasons could include – falling costs of production for domestic producers.	2
Identifies increase in the supply curve only	1
(b) Clearly outline TWO merits of a subsidy relative to a tariff. Answer could include: lower prices, paid from progressive taxation, subject to regular review	2
Outlines ONE merit only	1
(c) Identifies the bloc or agreement by name and provides main issues with its operation on global trade flows saying how it has increased/reduces these flows	3-4
Names the bloc and provides limited information on its operation.	2
(d) Gives main features of reasons/benefits of reducing protection levels over recent times – in terms of efficiency gains, more competitive industries, better allocation of resources, rising incomes levels	2
Basic explanation of reasons	1

Section III - Question 25

Criteria	Marks
<ul style="list-style-type: none"> • Demonstrates factually precise and extensive knowledge of the economic & social costs of income inequality • Draws out & relates the implications of government policies and their impact upon income inequality in the Australian economy • Synthesises relevant economic data to support a comprehensive, contemporary and theoretical discussion in a sustained, logical and well-structured answer 	17–20
<ul style="list-style-type: none"> • Sketches in general terms the economic & social costs of income inequality • Describes the government policies and their impact upon income inequality in the Australian economy • Uses relevant data to develop a logical and well-structured response 	13–16
<ul style="list-style-type: none"> • Sketches in general terms the economic & social costs of income inequality • Describes the government policies used to address income inequality • Uses relevant data to develop a coherent response 	9–12
<ul style="list-style-type: none"> • Lists the economic & social costs of income inequality • May outline one government policy used to address income inequality • Makes minimal use of data to develop a generalised response 	5–8
<ul style="list-style-type: none"> • May lists an economic &/or social cost of income inequality • May identify one government policy used to address income inequality • Basic use of some terminology in a limited response 	1–4

Answers may include:

- **Economic costs such as:** reduction in overall utility of the population, may reduce economic growth, conspicuous consumption, poverty, cost of welfare support.
- **Social costs:** Social class divisions, poverty
- **Government Policy:**
 - Redistribution of income through the progressive income tax system
 - Redistribution of income through the welfare payments system
 - Indirect strategies such as budget deficits to stimulate activity and employment
 - Increased labour market flexibility to encourage employment
 - Superannuation impacts

Section III - Question 26

Criteria	Marks
<ul style="list-style-type: none"> • Demonstrates factually precise and extensive knowledge of the make up and trends of Australia's balance of payments • Draws out & relates the implications of structural change, foreign debt and terms of trade on Australia's balance of payments • Synthesises relevant economic data to support a comprehensive, contemporary and theoretical discussion in a sustained, logical and well-structured answer 	17–20
<ul style="list-style-type: none"> • Sketches generally the make up and trends of Australia's balance of payments • Describes the implications of structural change, foreign debt and terms of trade on Australia's balance of payments • Uses relevant data to develop a logical and well-structured response 	13–16
<ul style="list-style-type: none"> • Provides a brief overview of the trends in Australia's balance of payments • Outlines issues such as structural change, foreign debt and terms of trade • Uses relevant data to develop a coherent response 	9–12
<ul style="list-style-type: none"> • Briefly identifies the trends in Australia's balance of payments • May outline in a basic manner issues such as structural change, foreign debt and terms of trade • Makes minimal use of data to develop a generalised response 	5–8
<ul style="list-style-type: none"> • May lists trends in Australia's balance of payments • May identify some BOP issues • Basic use of some terminology in a limited response 	1–4

Answers may include:

- **Trends in our Balance of Payments:** cyclical nature of the BOGS, growing deficit on net income (structural issues), relative unimportance of current transfers and capital account, growing size of the financial account, particularly inflows of portfolio investment as opposed to FDI.
- **Structural change:** changing patterns of production process in the economy. Growing importance of the mining sector & declining importance of rural/manufacturing to our export receipts. Increased flows/importance of finance due to deregulation of financial markets.
- **Foreign debt:** increased borrowings by the private sector lead to large inflows of debt in the financial account and large outflows of interest repayments through the net Y component of the current a/c thus worsening the current a/c. Relative low level of government foreign debt.
- **Terms of trade:** improvement in terms of trade in recent years due to increased export demand for minerals has had a very positive effect on the BOGS, to the point where surpluses have been recorded in 07-08. This has decreased the negative impact on the BOP and has improved our position as a result.

Section IV - Question 27

Criteria	Marks
<ul style="list-style-type: none"> • Demonstrates factually precise and extensive knowledge of the development strategies used by governments clearly explaining the response to global factors utilised by an economy other than Australia • Synthesises relevant economic data to support a comprehensive, contemporary and theoretical discussion in a sustained, logical and well-structured answer • Integrates economic terms, concepts, issues, relationships and theory 	17–20
<ul style="list-style-type: none"> • Demonstrates a good knowledge of the development strategies used by governments explaining the response to global factors utilised by an economy other than Australia • Uses relevant data to develop a logical and well-structured response • Applies appropriate economic terms, relevant concepts, relationships and theory 	13–16
<ul style="list-style-type: none"> • Demonstrates a satisfactory knowledge of the development strategies used by governments with an attempt at the response to global factors utilised by an economy other than Australia • Uses relevant data to develop a coherent response • Applies appropriate economic terms, concepts and theory 	9–12
<ul style="list-style-type: none"> • Sketches in general terms development strategies of economies other than Australia • Makes minimal use of data to develop a generalised response • Uses some economic terms and concepts 	5–8
<ul style="list-style-type: none"> • Demonstrates basic knowledge of development & may give an example of strategies utilised by government • Basic use of some terminology in a limited response 	1–4

Answers may include:

- **Impacts of the global economy & globalisation such as:**
 - Decreased protection
 - Increased trade flow & volume
 - TNC's
 - Financial flows
- **Development strategies such as:**
 - Decreased protection & policies opening up free trade
 - government support of certain industries
 - Increased expenditure on health, infrastructure & housing
 - Increased regulation of financial sectors
 - Inclusion in free trade agreements & WTO membership