



FORT STREET HIGH SCHOOL

2010

HIGHER SCHOOL CERTIFICATE  
MID-COURSE EXAMINATION

Student Number
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# Economics

## *General Instructions*

- Reading time – 5 minutes
- Working time – 2 hours
- Write using blue or black pen
- Board-approved calculators may be used
- Write your Student Number at the top of

this page.

**Total marks – 70**

### **Section I**

**20 marks**

- Attempt Questions 1 – 20
- Allow about 30 minutes

### **Section II**

**30 marks**

- Attempt Questions 21 – 24
- Allow about 45 minutes

### **Section III**

**20 marks**

- Attempt Question 25
- Allow about 45 minutes

## Section I

20 Marks

Attempt Questions 1 – 20

Allow about 30 minutes for this section

Use the multiple-choice answer sheet for Questions 1 – 20

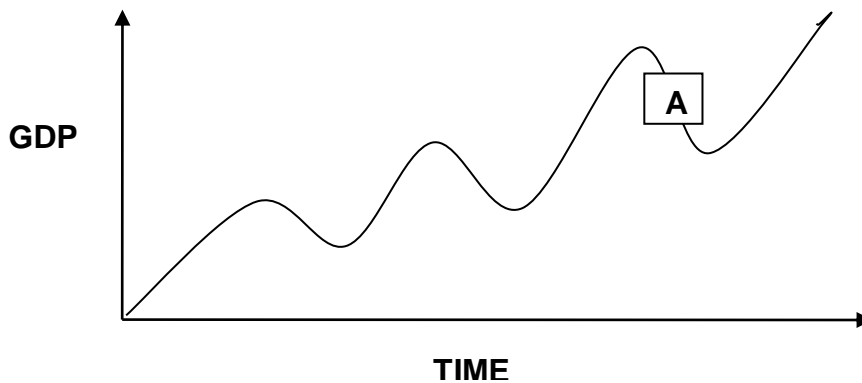
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1. The table shows data inflation data for an economy

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Year 2	104
Year 3	109

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- (A) 4.6%
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  - (C) 4.8%
  - (D) 4.0%
2. The diagram shows the business cycle for an economy



Which of the following statements accurately describes the level of economic growth, inflation and unemployment at Point A?

- (A) Economic growth is negative, unemployment is rising, inflation is falling
- (B) Economic growth is positive, unemployment is falling, inflation is rising
- (C) Economic growth is negative, unemployment is rising, inflation is rising
- (D) Economic growth is negative, unemployment is falling, inflation is falling

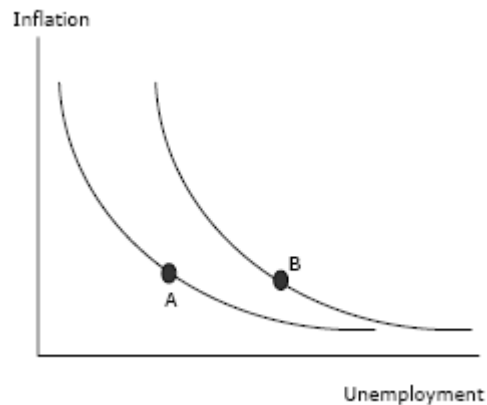
3. The table shows selected data for an economy

<i>Real GDP</i>	<i>Net Foreign Liabilities</i>	<i>Net Foreign Debt</i>
\$840bn	\$425bn	\$210bn

What is the value of net foreign equity as a percentage of real GDP?

- (A) 75.6%
  - (B) 25.6%
  - (C) 49.4%
  - (D) 50.6%
4. What is the Commonwealth Government's medium-term strategy for fiscal policy?
- (A) A balanced budget, on average, over the course of the business cycle
  - (B) A surplus budget, on average, over the course of the business cycle
  - (C) Inflation at between 2-3%, on average, over the course of the business cycle
  - (D) Economic growth above 4%, on average, over the course of the business cycle
5. Which is the largest and most stable component of aggregate demand?
- (A) Consumption
  - (B) Government expenditure
  - (C) Net exports
  - (D) Investment
6. Which of the following will tend to increase the impact of rises in the cash rate on the Australian economy?
- (A) A buoyant share and property market
  - (B) An increase in the level of consumer confidence and expectations
  - (C) An increase in the popularity of fixed interest home loans
  - (D) An increase in the level of household debt
7. Which action would the Reserve Bank likely take in the event that underlying inflation was 1%?
- (A) Sell financial instruments in the cash market
  - (B) Buy financial instruments in the cash market
  - (C) Sell foreign currencies on the foreign exchange market
  - (D) Buy foreign currencies on the foreign exchange market

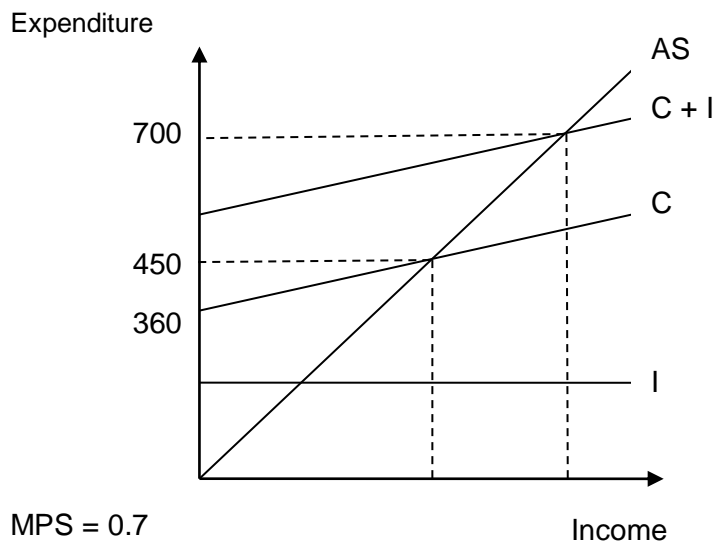
8. The diagram shows the relationship between inflation and unemployment in an economy



Which of the following is the likely cause of the shift from point A to point B?

- (A) A rise in aggregate demand
  - (B) A fall in aggregate demand
  - (C) A rise in the natural rate of unemployment
  - (D) A rise in cost-push inflation
9. Which of the following policies would NOT be appropriate to increase the rate of economic growth if the economy had reached full employment?
- (A) Encouraging an increase in private savings and investment in capital goods.
  - (B) Improving the knowledge and skill of people through education.
  - (C) Developing technology and managerial ability.
  - (D) Encouraging an increase in the proportion of total expenditure devoted to consumption expenditure.
10. The government of a liberalised market economy reduces its budget deficit at the same time that oil prices increase.
- Which of the following is most likely to occur?
- (A) A currency depreciation
  - (B) The level of GDP will rise since less government spending will tend to cause an increase private investment
  - (C) The level of GDP will fall since both events will tend to cause an economic contraction
  - (D) The price level will rise, since higher oil prices will increase the rate of inflation

11. The diagram shows aggregate demand in a 3-sector closed economy



What is the value of investment?

- (A) 150
- (B) 130
- (C) - 150
- (D) 450

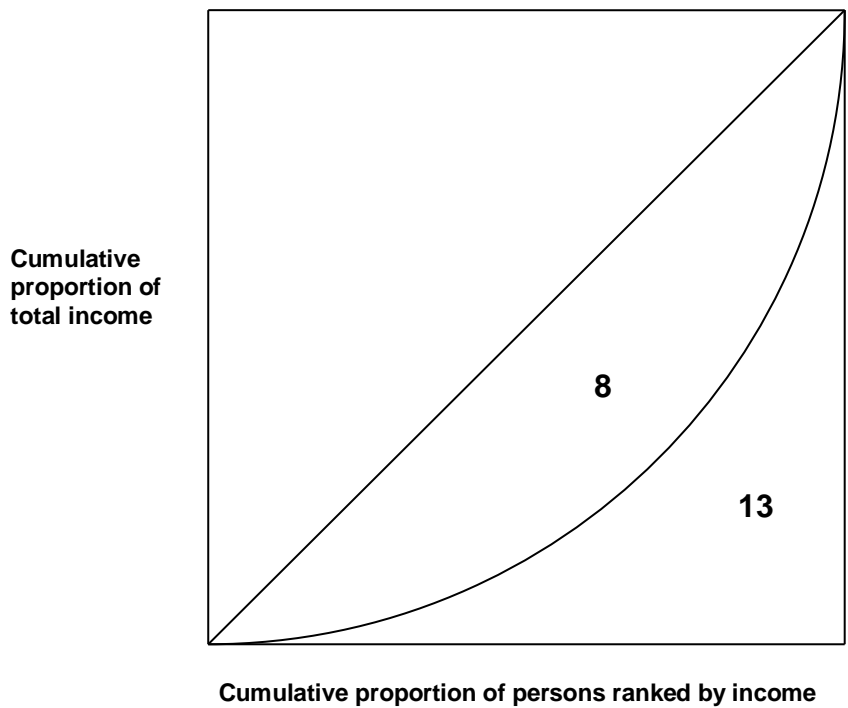
12. Which of the following is true of government policies to reduce the structural component of a budget deficit?

- (A) These would be best implemented with expansionary monetary policy
- (B) These would be best implemented during an upturn in the business cycle
- (C) These would form part of its microeconomic reform agenda
- (D) These would be inflationary

13. Which of the following groups are NOT disproportionately affected by unemployment?

- (A) Those without a university education
- (B) Those living in rural areas
- (C) Those who have emigrated to Australia from English-speaking countries
- (D) Those who are under 25 years of age

14. The following diagram shows the distribution of income for an economy



What is the Gini Coefficient for this economy?

- (A) 0.62
- (B) 0.13
- (C) 0.38
- (D) 0.21

15. Which of the following is a cause of structural unemployment?

- (A) Inadequate employment networks and jobseeker assistance
- (B) An economic downturn
- (C) Excessively high unemployment benefits
- (D) The collapse of an industry

16. The marginal propensity to save in an economy is 0.6 and investment increases by \$300m.

What is the increase in the equilibrium level of income?

- (A) \$180m
- (B) \$500m
- (C) \$120m
- (D) \$750m

17. Which of the following is a source of cost-push inflation?
- (A) Expansionary macroeconomic policy
  - (B) An increase in the minimum wage
  - (C) A depreciation of the Australian dollar
  - (D) The printing of money by the Federal Government

18. Which of the following is NOT a source of economic growth?
- (A) Consumption
  - (B) Imports
  - (C) Investment
  - (D) Exports

19. The table shows selected data for an economy

Year	Unemployed	Part-time employed	Full-time employed	Population (Total)	Population (15+)
1	125,000	180,000	578,000	1,568,000	1,046,000
2	132,000	210,000	591,000	1,753,000	1,208,000

What is the participation rate for this economy in Year 2?

- (A) 66.3%
  - (B) 53.2%
  - (C) 14.1%
  - (D) 77.2%
20. Which of the following is the likely consequence of high inflation in an economy?
- (A) Worsening external stability and increased domestic investment
  - (B) Lower real interest rates and less speculative investment
  - (C) Higher unemployment and improved distribution of income
  - (D) Higher imports and decreased foreign investment into the economy

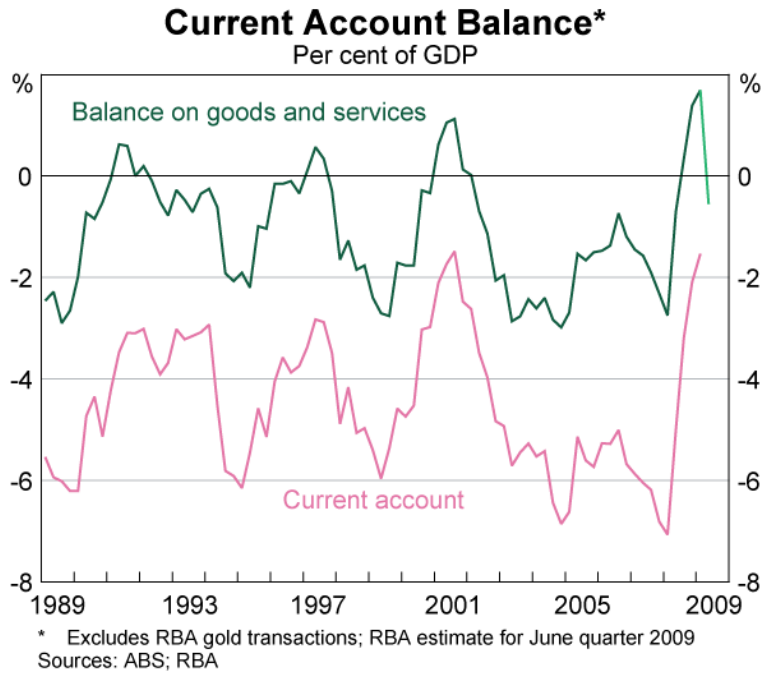
Student Number
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**Section II**

**30 marks**  
**Attempt Questions 21 – 24**  
**Allow about 45 minutes for this section**

Answer the questions in the spaces provided.

**Question 21 (7 marks)**



(i) Define external stability **1**

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(ii) Outline TWO major causes of Australia's CAD **2**

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**Question 21 continues on page 9**



Question 21 (continued)

(iii) Examine the impact of worsening external stability on the Australian economy 4

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**Question 22** (7 marks)

(i) The table shows data for the budget of a hypothetical economy

Year	Expenditure	Revenue
1	\$456.7bn	\$439.2bn
2	\$473.1bn	\$467.3bn

State the budget outcome for this economy in Year 2 **1**

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(ii) Explain why the government may have pursued its fiscal stance in Year 2 **2**

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(iii) Examine the economic reasons for budgeting for a surplus **4**

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**Question 23 (8 marks)**

- (i) Define ecologically sustainable development **1**

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- (ii) Explain how the harvesting of international waters for fish can lead to market failure **3**

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**Question 23 continues on page 12**

Question 23 (continued)

- (iii) Explain the economic policy response of the Australian Government to ONE environmental issue **4**

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**Question 24 (8 marks)**

(i) Explain how monetary policy is implemented by the Reserve Bank of Australia **3**

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(ii) Explain how changes in monetary policy transmit through the economy **5**

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**2010 Fort Street Mid-Course Examination**

**ECONOMICS**

**Section III**

**20 marks**

**Attempt Question 25**

**Allow about 45 minutes for this section**

Student Number

Answer the question in a SEPARATE writing booklet or on separate writing paper (to be stapled).

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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 25**

Discuss the economic policy conflicts that arise in the pursuit of economic growth

**End of paper**



FORT STREET HIGH SCHOOL

2010

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ANSWERS

Student Number

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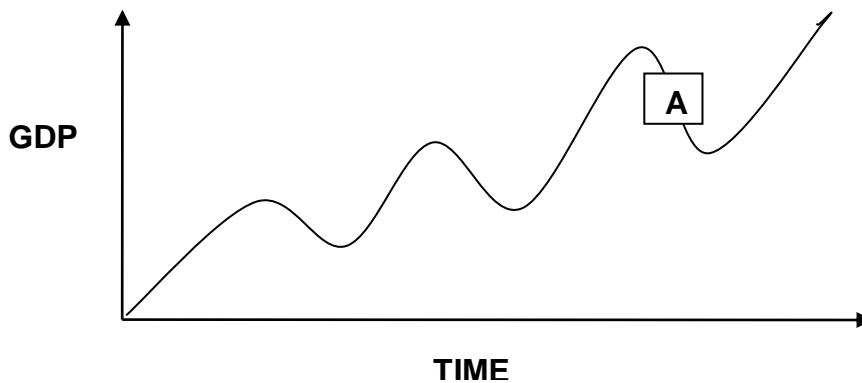
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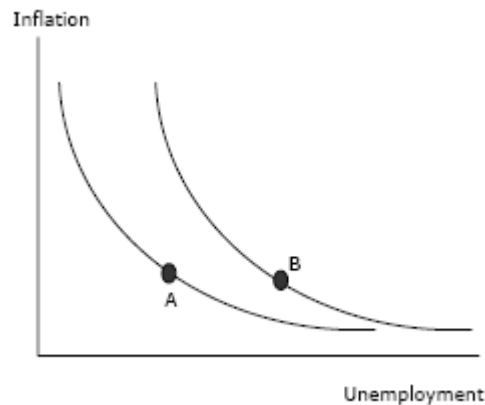
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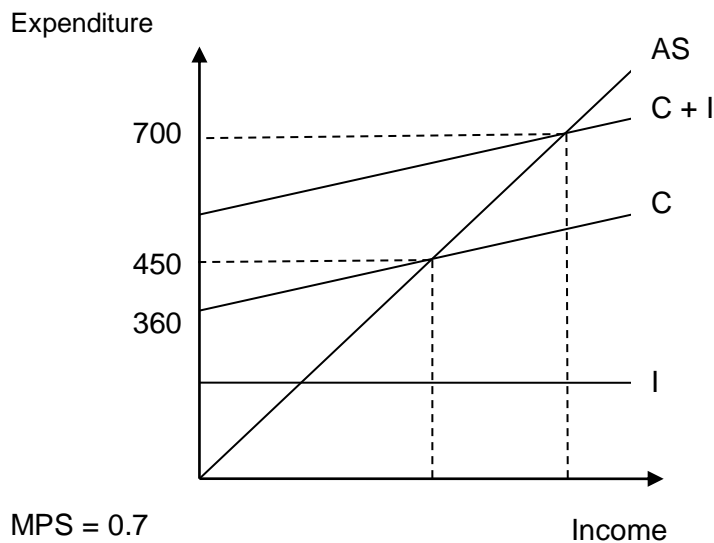
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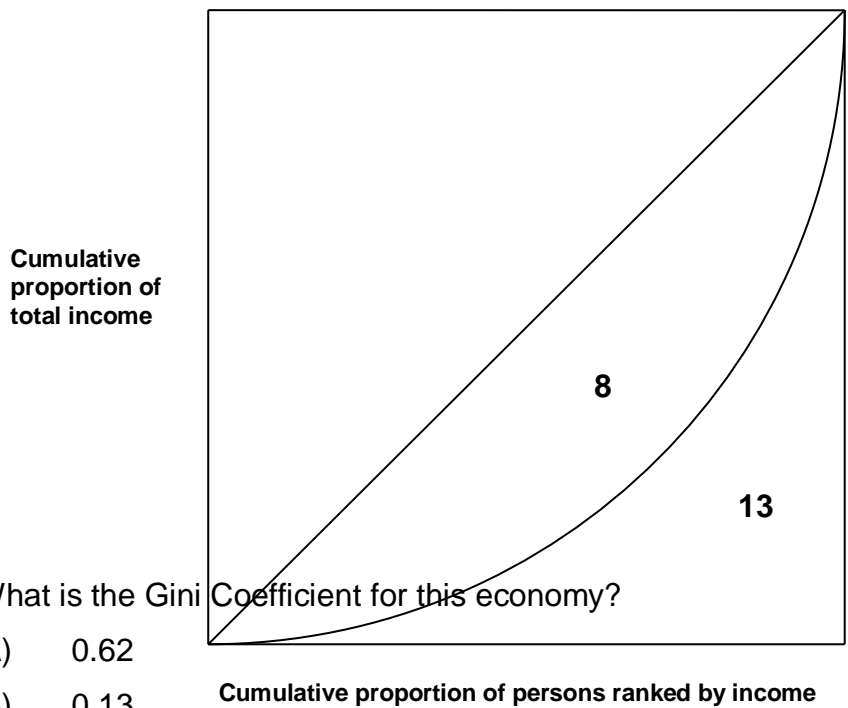
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2010 Fort Street Mid-Course Examination  
ECONOMICS

Section II

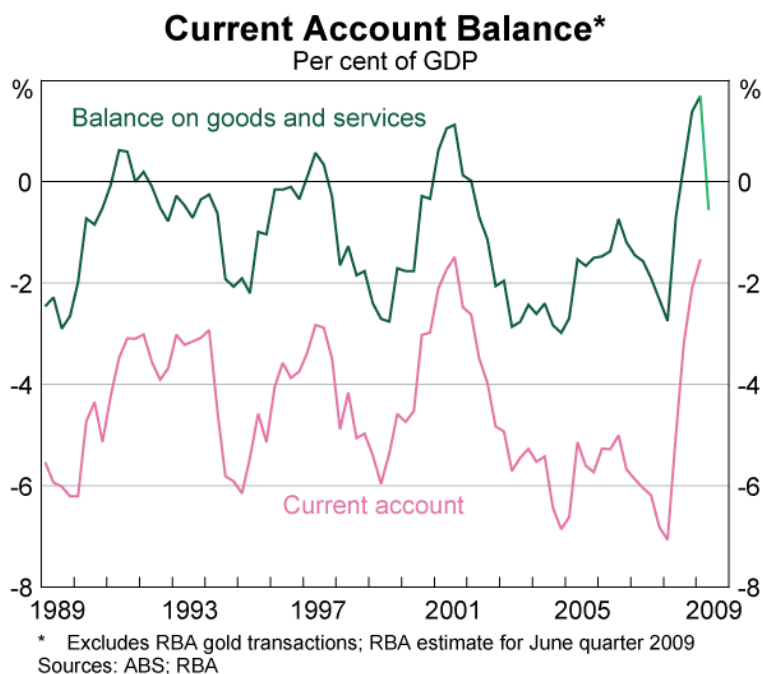
30 marks

Student Number

**Attempt Questions 21 – 24**  
**Allow about 45 minutes for this section**

Answer the questions in the spaces provided.

**Question 21 (7 marks)**



- (i) Define external stability 1

Very few students could give an exact reason, there was some tolerance given. But will need to give exact definition for the HSC.

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- (ii) Outline TWO major causes of Australia's CAD 2

- Savings-investment gap
- International competitiveness
- Narrow export base

A common mistake was giving a cause of CAD was imports greater than exports. This is just what a CAD is. Students needed to say why imports are greater than exports (ie: above reasons).

Question 21 continues on page 9

Question 21 (continued)

- (iii) Examine the impact of worsening external stability on the Australian economy **4**
- **Increased debt servicing costs**
  - **Loss of investor confidence leading to lack of investment funds, depreciation of the \$A and higher interest rates**
  - **Possible contractionary economic policy response and subsequent unemployment**

Was looking for a range of answers (more than 2). There needed to be some examination rather than just identify and outline

If economic understanding showed inconsistencies which affected marks even if 3 impacts were examined. 3 marks instead of 4

Question 22 (7 marks)

- (i) The table shows data for the budget of a hypothetical economy

Year	Expenditure	Revenue
1	\$456.7bn	\$439.2bn
2	\$473.1bn	\$467.3bn

State the budget outcome for this economy in Year 2 **1**

**\$5.8bn deficit**

- (ii) Explain why the government may have pursued its fiscal stance in Year 2 **2**

Many people did not understand the concepts of a fiscal stance. Need to compare to previous Year.

**Contractionary fiscal stance possibly due to:**

- **High inflation**
  - **High economic growth**
- (iii) Examine the economic reasons for budgeting for a surplus **4**
- **External stability – to increase the level of national savings**
  - **Future expenses – to allocate surplus into a fund for future expenses**

- **Economic growth**

- **Inflation**

**Needed to examine provide some depth**

**Question 23** (8 marks)

(i) Define ecologically sustainable development **1**

**A level of economic development that meets the needs of the current generation without compromising the ability of future generations to meet their needs.**

**Done very well,**

(ii) Explain how the harvesting of international waters for fish can lead to market failure **3**

- **Lack of property rights**

- **Tragedy of the Commons – exploitation**

**Needed to explain, had to involve public goods and**

**Some people just talked about externalities**

**Question 23 continues on page 12**



Question 23 (continued)

- (iii) Explain the economic policy response of the Australian Government to ONE environmental issue 4

**Given where this sits in the syllabus I expected students to have a high level of knowledge, this included specific details of the policy, answering in general terms of environmental economics received half marks**

**Question 24 (8 marks)**

- (i) Explain how monetary policy is implemented by the Reserve Bank of Australia 3
- **DMOs via ESAs in STMM using CGS or similar**

**Explain meant required a change and effect ie: the RBA buys govt securities increasing the money supply and therefore decreasing interest rate**

- (ii) Explain how changes in monetary policy transmit through the economy 5
- **Inter-temporal substitution effect**
  - **Cash-flow effect**
  - **Asset price effect**
  - **Exchange rate effect**
  - **Expectations effect**

**Needed to explain: that includes a cause an effect, some students wrote only on the changes and there was no effect on how they changed economic activity, hoping to see words such as aggregate demand, stabilisation of activity, etc, receive the 4/5**

**2010 Fort Street Mid-Course Examination**

**ECONOMICS**

Student Number

**Section III**

**20 marks**

**Attempt Question 25**

**Allow about 45 minutes for this section**

Answer the question in a SEPARATE writing booklet or on separate writing paper (to be stapled).

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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
- 

**Question 25**

Discuss the economic policy conflicts that arise in the pursuit of economic growth

**End of paper**