



FORT STREET HIGH SCHOOL

Student Number

2011  
HIGHER SCHOOL CERTIFICATE  
MID-COURSE EXAMINATION

# 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 – 75**

### **Section I 20 marks**

- Attempt Questions 1 – 20
- Allow about 30 minutes

### **Section II 35 marks**

- Attempt Questions 21 – 24
- Allow about 50 minutes

### **Section III 20 marks**

- Attempt Question 25
- Allow about 40 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. Which of the following would most likely decrease as a result of an upturn in the business (economic) cycle?
  - (A) the rate of inflation
  - (B) the level of economic activity
  - (C) the level of imports
  - (D) the rate of unemployment
  
2. Which government policy is likely to improve equity in the distribution of income?
  - (A) removal of capital gains tax
  - (B) increasing the tax-free threshold for income tax
  - (C) decreasing the top marginal rates of income tax
  - (D) removal of compulsory superannuation
  
3. Which budgetary/fiscal policy measure is likely to have a positive impact on the supply-side of the economy?
  - (A) reduced government expenditure on the provision of infrastructure
  - (B) increased company tax rates
  - (C) increased tax concessions for research and development (R & D)
  - (D) reduced interest rates
  
4. Which of the following methods of deficit financing is the most likely to cause a crowding out effect in private investment?
  - (A) Government borrowing from domestic lenders
  - (B) Government borrowing from overseas lenders.
  - (C) Reserve Bank printing of money
  - (D) Government borrowing from the Reserve Bank

5. Which of the following is an example of an automatic stabilizer as an economy moves into recession?
- (A) A rise in transfer payments paid to the unemployed
  - (B) Increased government spending on labour market programs
  - (C) A reduction in the company tax rate
  - (D) A rise in income tax receipts

6. The table below shows some labour market data for a hypothetical economy.

Year	Number of persons employed (000s)	Labour force (000s)
2009	100	150
2010	200	250

Based on this data, which one of the following statements is **true**?

- (A) The unemployment rate in 2010 is exactly the same as in 2009.
  - (B) The unemployment rate in 2010 is higher than in 2009.
  - (C) The unemployment rate in 2010 is lower than in 2009.
  - (D) There is not enough information to determine unemployment rates.
7. A tightening of monetary policy in Australia is most likely to occur if the
- (A) rate of inflation moves above the Reserve Bank of Australia's target range.
  - (B) unemployment rate significantly increases.
  - (C) exchange rate suddenly appreciates.
  - (D) size of the budget surplus increases.
8. Which of the following is true of the lag between implementing economic policy and its impact on the economy?
- (A) Monetary policy has a short term implementation lag and short impact lag
  - (B) Fiscal policy has a medium term implementation lag and short impact time lag
  - (C) Monetary policy has a long term implementation lag and a short impact time lag
  - (D) Fiscal policy has a short term implementation lag and long impact time lag

9. The information in the table refers to a hypothetical economy.

<b>Balance of Payments</b>	<b>(\$bn)</b>
Net Goods	2
Net services	- 7
Net Primary Income	-8
Net Secondary Income	-3
Capital Account	10
Financial Account	?

What is the balance on the financial account?

- (A) +30bn
  - (B) +6bn
  - (C) -6bn
  - (D) -23bn
10. Which of the following would lead to an increase in an economy's debt-servicing ratio?
- (A) An increase in net foreign equity
  - (B) A decrease in global interest rates
  - (C) An increase in the profitability of multinational companies
  - (D) A decrease in export receipts
11. Which of the following best explains why the market system generally fails to produce public goods?
- (A) Low income earners are disadvantaged because they can not afford to pay for public goods
  - (B) Consumers prefer to buy private goods rather than public goods
  - (C) The benefits of public goods can not be restricted only to those who purchase them
  - (D) The government controls the distribution and price of public goods.
12. Which of the following is a possible cause of cost inflation?
- (A) Increased wages due to skill shortages
  - (B) Expansionary macroeconomic policy
  - (C) An appreciation of the Australian dollar
  - (D) A rise in the level of domestic consumption spending

13. The table shows selected data of an economy

<b>Year</b>	<b>Nominal GDP</b>	<b>CPI</b>
1	600	100
2	660	105
3	692	108

What is the real economic growth rate for Year 3?

- (A) -1.89%
- (B) 0.96%
- (C) 1.93%
- (D) 2.2%

14. Which of the following economic objectives can best be achieved simultaneously with economic growth?

- (A) Price stability
- (B) External balance
- (C) Increasing employment
- (D) Environmental sustainability

15. Which type of unemployment best describes that period of time when a worker is searching for, or transitioning from one job to another?

- (A) Cyclical
- (B) Structural
- (C) Frictional
- (D) Hidden

16. The table shows selected data for an economy

<b><i>Real GDP</i></b>	<b><i>Net Foreign Liabilities</i></b>	<b><i>Net Foreign Equity</i></b>
\$960bn	\$410bn	\$160bn

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

- (A) 70.1%
- (B) 65.6%
- (C) 59.4%
- (D) 26.0%

17. In which of the following situations is the problem of rising inflation more likely to occur?
- (A) Unemployment is high and interest rates are high
  - (B) Unemployment is low and interest rates are high
  - (C) Unemployment is high and interest rates are low
  - (D) Unemployment is low and interest rates are low
18. What are the likely impacts of the Reserve Bank purchasing government securities in the short term money market?
- (A) Increased liquidity, increased exchange settlement account balances and a reduced cash rate.
  - (B) Increased liquidity, increased exchange settlement account balances and an increase in the cash rate.
  - (C) Reduced liquidity, reduced exchange settlement account balances and an increase in the cash rate.
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19. Which of the following is a discretionary change to a budget outcome?
- (A) An increase in company tax receipts due to an increase in export sales
  - (B) A decrease in welfare spending due to an increase in employment
  - (C) An increase in GST revenue due to an increase in consumer spending
  - (D) A decrease in income tax receipts due to an increase in the tax-free threshold
20. Which of the following policies would lead to a rise in the natural rate of unemployment?
- (A) An increase in official interest rates
  - (B) A reduction in government expenditure on welfare payments
  - (C) A decreased government spending on labour market programs
  - (D) A reduction in personal income tax

**2011 Fort Street Mid-Course Examination  
ECONOMICS**

Student Number
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**Section II**

**35 marks**

**Attempt Questions 21 – 24**

**Allow about 50 minutes for this section**

Answer the questions in the spaces provided.

**Question 21**

**(9 marks)**

<b>Year</b>	<b>Income (\$ billions)</b>	<b>Consumption (\$ billions)</b>	<b>Savings (\$ billions)</b>
<b>1</b>	2000	1200	800
<b>2</b>	2400	1520	880
<b>3</b>	2800	1840	960
<b>4</b>	3200	2160	1040

(i) Define Economic growth

**1**

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(ii) Calculate the marginal propensity to consume for this economy

**1**

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(iii) Calculate the increase in national income if investment increases by \$50 billion.

**1**

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**Question 23**

**10 Marks**

(i) Define the term externalities.

**1**

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(ii) Describe the conflict between environmental sustainability and economic growth as goals of government policy.

**2**

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(iii) Explain why climate change can be seen as a form of market failure

**2**

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**Question 24**

**10 marks**

(i) Define microeconomic policies

**1.**

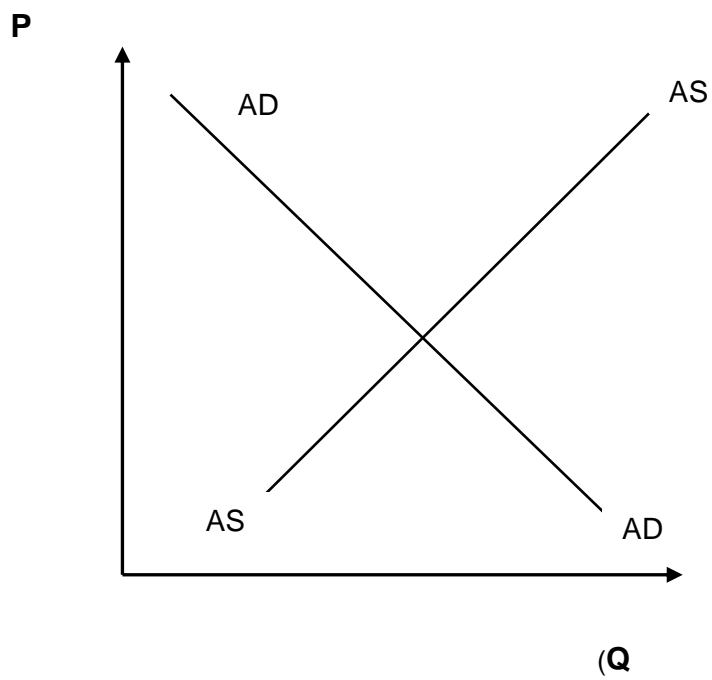
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(ii) On the graph below draw a curve that represents the effect of microeconomic reform on the economy.

**1.**







**2011 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
- 

Discuss the policies available to the Australian Government to control the rate of inflation.

**End of Paper**



FORT STREET HIGH SCHOOL

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ANSWERS

Student Number

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2011 Fort Street Mid-Course Examination  
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35 marks

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Allow about 50 minutes for this section

Answer the questions in the spaces provided.

Question 21

(9 marks)

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1	2000	1200	800
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4	3200	2160	1040

(i) Define Economic growth

1

**Economic growth refers to a sustained increase in the real value of goods and services that an economy produces over a period of time.**

(ii) Calculate the marginal propensity to consume for this economy

1

$$\text{MPC} = 0.8$$

(iii) Calculate the increase in national income if investment increases by \$50 billion.

1

$$\text{Multiplier is } 1 / 1 - \text{MPC}$$

$$= 1 / 1 - 0.8$$

$$= 1 / 0.2$$

$$= 5$$

$$\Delta Y = \Delta I \times K$$

$$\Delta Y = 5 \times 50\text{bn}$$

$$= 250\text{bn}$$

(iv) Explain how the multiplier works to increase national income 2

**The multiplier refers to the more than proportional change in National income resulting from an increase in aggregate demand. (1) This occurs because the expenditure of one person becomes the income of another which in turn becomes their expenditure further increases income and expenditure as it multiplies the initial increase.**

**Answers need to have: understanding that one person's spending becomes another's income which in turn forms spending. Cannot just be spending and spending. (1 mark)**

(v) Outline the benefits of economic growth to a nation. 4

- **Increased living standards**
- **Enables greater employment due to higher incomes and demand for goods & services**
- **Encourages hidden unemployed to re-enter the workforce**
- **Lower government spending on welfare**
- **Higher government tax revenue**
- **Opportunity for increased investment in infrastructure and public services**

**Question 22 6 marks**

(i) Define structural unemployment 1

**Those people who are unemployed due to a mismatch between their skills and those skills demanded by employers**

(ii) Discuss two economic costs associated with unemployment. 2

- **Opportunity cost ; economy's resources are not being used to their full capacity – economy operating below its production possibility frontiers**
- **Decline in labour market skills – hysteresis**
- **Lower living standards**
- **Cuts to government revenue and increases in expenditure**
- **Lower wage growth**

- (iii) Explain the significance of the non-accelerating inflation rate of unemployment (NAIRU) for policy makers when an economy is close to full-employment. **3**

**The NAIRU is that rate of unemployment consistent with optimum productive capacity yet does not lead to rapidly increasing inflation.**

**When an economy is close to full-employment, there is little cyclical unemployment and any increase in aggregate demand results in increased wages and higher wages. This is because business will have to bid up the price of labour and other scarce resources to attract them to their business. Therefore any expansionary macroeconomic policies will not reduce employment only increase inflation. Policies that address the supply constraints are required.**

**Question 23**

**10 Marks**

- (i) Define the term externalities. **1**

**Externalities are external costs and benefits that private agents in a market do not consider in their decisions.**

**Externalities are considered the unintended consequences of the consumption or production of a good which are not accounted for by the price mechanism.**

- (ii) Describe the conflict between environmental sustainability and economic growth as goals of government policy. **2**

**Economic growth increases the demand for natural resources for the production of g & s. Government policy to increase economic growth can deplete non-renewable resource and affect environmental sustainability. As production increases problems of deforestation, climate change, pollution and waste all increase.**

- (iii) Explain why climate change can be seen as a form of market failure **2**

**Climate change is a form of market failure as firms producing goods and services and the consumers who buy their product do not pay the full social costs relate to the product. Others have to pay the real cost related to drought, rising sea-levels and decreased agricultural production.**

**In only paying the private costs of production firms overproduce the g&s above the socially quantity.**



- (iv) Explain **ONE** environment policy that could be used by governments to manage a contemporary environmental issue.

5

Answers could include: water trading, emissions trading scheme, carbon tax

The students should know the issue at depth and provide statistics and relevant details to achieve marks greater than 2.

Need to have a **cause and effect relationship** and explain how the policy actually works.

**Question 24**

**10 marks**

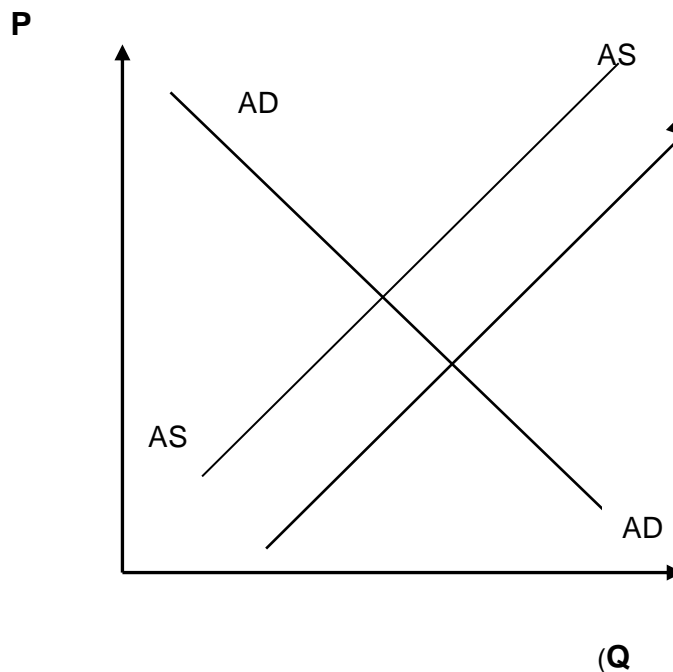
- (i) Define microeconomic policies

1

**Microeconomic policies that are aimed at improving the supply-side of the economy, improving the efficiency and productivity of markets**

- (ii) On the graph below draw a curve that represents the effect of microeconomic reform on the economy.

1



(iii) Examine the reasons behind Australia's current account deficit. **4**

**Factors can affect the CAD in both positive and negative ways (all are acceptable)**

- Growth in foreign borrowing repayments on the primary income
- International competitive
- Narrow export base
- Terms of trade
- Savings and Investment gap
- state of global
- Impact of the value of the dollar

(iv) Explain how microeconomic reform can be used to improve Australia's external stability **4**

This can be slightly more general than HSC due to not finishing the course and that microeconomic policies have not been done in depth yet.

- **Improving the supply constraints**
  - **Improvements in education and infrastructure**
- **Cuts to protection**
- **Efficiency in govt business to reduce business costs**
- **Targeting export industries**
- **Labour market reforms**
- **More competitive industries to boost exports**
- **Industry policy to encourage innovation**
- **Encouragement of investment and Research and development.**

**End of Section II**

**2011 Fort Street Mid-Course Examination**

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**Section III**

**20 marks**

**Attempt Question 27**

**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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- 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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Discuss the policies available to the Australian Government to control the rate of inflation.

**End of Paper**