**Fort Street High School**

## 2013
HIGHER SCHOOL CERTIFICATE
Midcourse Examination

# Economics

*General Instructions*

- Reading Time: 5 minutes

- Working Time: 2 hours

- Write using black or blue pen

- Board-approved calculators may be
- used

- Write your Student Number at the top of each page (write your name if you do not have your Student Number)

**Student Number**

*Total Marks – 70*

**Section I**

**Total Marks (20)**
Attempt Questions 1 – 20
Allow about 35 minutes for this section

**Section II**

**Total Marks (30)**
Attempt Questions 21 – 24
Allow about 45 minutes for this section

**Section III**

**Total Marks (20)**
Attempt Question 25
Allow about 40 minutes for this section

This paper MUST NOT be removed from the examination room

# 2013 MIDCOURSE EXAMINATION

**Section I**

**20 Marks**
**Attempt Questions 1 – 20**
**Allow about 35 minutes for this section**
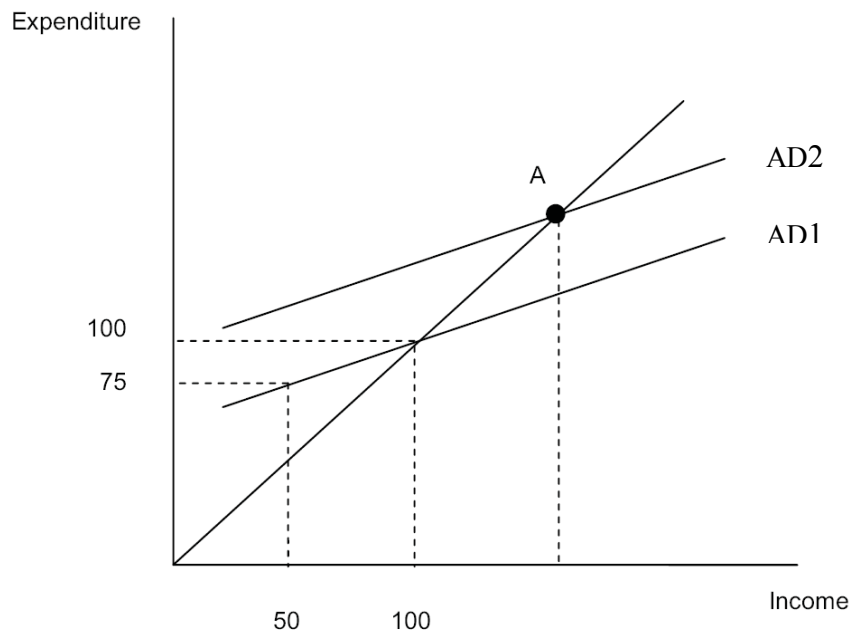
Use the multiple-choice answer sheet for Questions 1 – 20

1. Given the following information C = 60, I =20, G=10, M= 30, S=20, T = 15, X= 25, what is the level of aggregate demand?

   (A) 10

   (B) 55

   (C) 85

   (D) 140

2. A weakness of fiscal policy is

   (A) specific sectors of the economy can be targeted.

   (B) the presence of automatic stabilisers.

   (C) its medium term implementation lag.

   (D) that it is ineffective during recessions.

3. If the Reserve Bank of Australia wishes to tighten monetary policy, it would

   (A) buy government securities and raise the cash interest rate.

   (B) buy government securities and lower the cash interest rate.

   (C) sell government securities and raise the cash interest rate.

   (D) sell government securities and lower the cash interest rate.

4. Which of the following explains why the market system fails to produce public goods?

   (A) Consumers prefer to buy private goods rather than public goods

   (B) Consumers can benefit from public goods without having to pay for them

   (C) Low income earners are disadvantaged because they cannot afford public goods

   (D) Government business enterprises produce public goods cheaper than private industry

This question is based on the diagram below.



Expenditure

AD2

A

AD1

100

75

Income

50    100

5. In the diagram above, a $50 increase in investment has shifted the aggregate demand line from AD1 to AD2. What is the value of income at the new equilibrium point A?

(A) $150

(B) $180

(C) $200

(D) $270

6. The table below shown selected data for a nation

| Year | Nominal GDP ($m) | CPI | Real GDP ($m) |
|------|------------------|-------|---------------|
| 1 | 650 | 100 | 650 |
| 2 | 785 | 103.5 | ? |

From the information above, what is the real GDP for this economy in year 2?

(A) $135.0

(B) $785.0

(C) $758.0

(D) $812.5

7. This question is based on the hypothetical data in the table.

| Year | CPI | Unemployment (%) |
|------|------|------------------|
| 2008 | 100.3 | 6.2 |
| 2009 | 102.1 | 6.1 |
| 2010 | 104.2 | 5.8 |
| 2011 | 108.7 | 6.8 |

From the information in the table, which of the following events is most likely to have occurred in 2011?

(A) an improvement in the terms of trade

(B) a large increase in world oil prices

(C) an improvement in productivity levels

(D) a fall in the level of consumer confidence

8. Which of the following is an economic cost of unemployment?

(A) Increases in poverty

(B) Increases in national income

(C) Opportunity cost

(D) Erosion of self-esteem

9. Consider the following Gini Coefficient data for a hypothetical economy.

| Years | Gini Coefficient |
|-----------|------------------|
| 2005–2006 | 0.314 |
| 2009–2010 | 0.328 |

Based on the data above, which one of the following statements is most correct?

(A) The level of inequality has increased between 2005–2006 and 2009–2010, and the Lorenz Curve will have moved closer to the 45° line.

(B) The level of inequality has increased between 2005–2006 and 2009–2010, and the Lorenz Curve will have moved further away from the 45° line.

(C) The level of inequality has decreased between 2005–2006 and 2009–2010, and the Lorenz Curve will have moved closer to the 45° line.

(D) The level of inequality has decreased between 2005–2006 and 2009–2010, and the Lorenz Curve will have moved further away from the 45° line.

10. The following table shows employment data for a hypothetical economy.

| | (Millions) |
|---|---|
| **Employed persons** | 15 |
| **Unemployed persons** | 1 |
| **Population of working age** | 20 |
| **total population** | 25 |

Which of the following statements is true?

(A) The labour force participation rate is 80% and the unemployment rate is 5%

(B) The labour force participation rate is 80% and the unemployment rate is 6.25%

(C) The labour force participation rate is 64% and the unemployment rate is 5%

(D) The labour force participation rate is 64% and the unemployment rate is 6.25%

This question refers to the diagram below.



11. Assume that the economy moves from point A to point B. The **most** likely cause of this movement is a

(A) strong growth in wages.

(B) depreciation in the exchange rate.

(C) sharp reduction in net exports.

(D) contractionary monetary policy.

12. Which of the following are impacts associated with a recession?

   (A) Decrease in consumption, falling income levels, and rising quality of life
   (B) Rising unemployment, decrease in consumption, and falling quality of life
   (C) Falling unemployment, decrease in consumption, and falling quality of life
   (D) Rising unemployment, rising income levels, and falling quality of life

13. The Australian Government could claim to have met its internal economic objectives if

   (A) economic growth was 5%, inflation was 5% and unemployment was 5%.
   (B) economic growth was 3%, inflation was 2% and unemployment was 7%.
   (C) economic growth was 9%, inflation was 8% and unemployment was 3%.
   (D) economic growth was 4%, inflation was 2% and unemployment was 4%.

14. Which of the following groups would most benefit from high rates of inflation in the economy?

   (A) Savers
   (B) Exporters
   (C) Property owners
   (D) People on fixed incomes

15. The demand for books from Australian bookstores has fallen due to increased internet purchases. A sales assistant who loses her job due to the closure of an Australian bookstore would be

   (A) cyclically unemployed.
   (B) structurally unemployed.
   (C) frictionally unemployed.
   (D) seasonally unemployed

16. Which of the following improves Australia's international competitiveness?

   (A) higher real wages in Australian exporting industries
   (B) appreciation of the Australian dollar
   (C) improved multi-factor productivity
   (D) an increase in domestic inflation relative to Australia's trading partners

17. Which one of the following government policies would be an appropriate response to the overuse of common resources?

(A) the use of sales taxes
(B) government subsidies
(C) the assigning of property rights
(D) higher company taxes

18. Australia donates $20 million dollars to East Timor for the purpose of building a new hospital.

Where would this transaction be recorded on the balance of payments?

(A) As a credit on the net income component of the current account
(B) As a debit of the net income component of the current account
(C) As a credit on the financial account
(D) As a debit on the capital account

19. Goods associated with negative externalities are always

(A) underpriced and underproduced.
(B) overpriced and underproduced.
(C) underpriced and overproduced.
(D) overpriced and overproduced.

20. A worsening current account deficit is most likely to be a result of

(A) a decrease in domestic economic growth compared to global economic growth.
(B) increased capital expansion in domestic industries
(C) greater domestic savings compared to domestic investment.
(D) an increase in exports.

**Section II**

**Total Marks (30)**
Attempt Questions 21 – 24
Allow about 45 minutes for this section

**Question 21.** **6 Marks**

**The concept of sustainability, coined at the IUCN World Conservation Strategy in 1980 and extended at the UN Earth Summit in 1992, has become a cornerstone of forward-looking development policy worldwide.**

**To reach the goal of environmental sustainability, a major tool for policymakers is the quantification of resource use and the formulation of targets,**

**Dr Stefan Giljum**
**Head of Sustainable Resource Use, Sustainable Europe Research Institute (SERI)**

a) Distinguish between economic growth and ecological sustainable development. 1.

b) Explain how environmental targets assist policy makers with environmental sustainability. 2.

Environmental targets provide definite and tangible goals to guide environmental policy. They provide a quantitative measure to determine the level of effectiveness of policy as well as providing comparison over time which provides an understanding of trend

c) Outline the need for regulation to assist with environmental management. 3.

The price mechanism create market failure in relation to the environment especially in relation to negative externalities and global commons. Regaultions (laws) can address these through prohibiting something that is environmental damaging CFC or set limits on how much of a product can be produced.

Need to have
Puts limits on the impact of harmful economic activity on the environment
Restricts production of harmful thing or stop business exploiting the environment which would occur if there were no laws.

**Question 22**                                                     **8 Marks**

The table shows Consumer Price Index (CPI) data by expenditure group for an economy.

| Expenditure Group | Weighting factor in the CPI | CPI by expenditure group (base year 100) |
|---|---|---|
| Food | 25 | 130 |
| Health | 5 | 150 |
| Housing | 30 | 120 |
| Clothing | 12 | 110 |

a) Why are expenditure groups weighted in the CPI?                         1.

Expenditure groups are weighted according to their level of importance to the spending of the average Australian household. This provides a better understanding of the relative impact of price rises across expenditure goods on consumers and the CPI.

b) Explain why the underlying inflation rate is regarded by the RBA as a more important measure of inflation than the headline rate.                     2.

Underlying inflation removes any one-off or volatile changes such as seasonal influences or increase in government charges in the CPI. These gives the RBA a better understanding of overall price pressures in the economy which maybe needed to be controlled through monetary policy.

Answer needs to include more than it just removes volatile price rises.
• Need to address the why – not just what is done

d) Examine why high inflation is a problem for an economy                         5.

High inflation is a problem for an economy as it is a major constraint to economic growth.

The uncertainty created from inflation will distort economic decisions made by consumers and business. Consumers are affected through lower purchasing power. Businesses will

be reluctant to invest due to the uncertainty about prices and costs also leading lower economic growth. This lower investment impacts on Aggregate demand, increases unemployment as demonstrated by the Phillips curve. High rates of inflation also reduce a countries international competitiveness as the prices of its exports rise in comparison to other producing countries. To reduce inflation, higher interest rates (also reducing investment) will be imposed through monetary policy which will lead to an appreciation of the exchange rate impacting on the exports, worsening and the balance of goods and services.

**Question 23**

**The table below provides data regarding a hypothetical government**          **7 Marks**

| Year | Government Expenditure $b | Taxation Receipts $b |
|------|--------------------------|----------------------|
| 1 | 120 | 130 |
| 2 | 130 | 135 |
| 3 | 140 | 137 |

a) Using data from the table above identify the stance of fiscal policy for Year 3          1

| | |
|---|---|
| • Correctly identifies an expansionary fiscal policy stance | 1 |

b) Explain how non-discretionary (cyclical) influences impact on the budget outcome during an economic boom.                                                                                   2.

| Criteria | |
|---|---|
| • Clearly explains how the effect of cyclical influence related to a boom impacts on the budget outcome | 2 |
| • Provides a simple explanation of how cyclical influences related to a boom will impact on the budget outcome | 1 |

**Answer could include**
Increase in government revenue through income tax, taxes on company profits
Decrease in government transfer payments
Leads to an increase Budget surplus or less budget deficit

c) Discuss two methods the government can use to fund a budget deficit                4.

| Criteria | |
|---|---|
| • Clearly discusses TWO methods of funding a budget deficit | 3-4 |
| • Clearly explains ONE method of funding a budget deficit or a provides a simple discussion of both | 1-2 |

- Given the question 4 marks would have clearly looked at advantages and disadvantages of each.

**Question 24:**                                                                                 **9 Marks**

| Year | Current Account | Goods and Services Balance | Primary Income | CAD as a % of GDP |
|---|---|---|---|---|
| 08-09 | -38,780 | 7,622 | -45,407 | -3.2 |
| 09-10 | -53,291 | -3,977 | -47,782 | -4.1 |
| 10-11 | -33,567 | 20,841 | -52,397 | -2.5 |
| 11-12 | -41,357 | 5,834 | - 48, 895 | -2.8 |

*Source: ABS 2011, Balance of Payments & International Investment Position*

a) Given the data above, calculate the balance on the capital and financial accounts       1.
   for 2011-12

| • Correctly  calculates $41,357 surplus on the capital and financial accounts | 1 |
|---|---|

b) Explain why the Current Account is usually measured as a percentage of GDP.       1.

| • Correctly  provides a reason for the CA is measured as a percentage of GDP | 1 |
|---|---|

Answers could include:

- Allows for comparison over time
- Allows for comparison between countries
- Allows for comparison against benchmarks such as the IMF 4% in long run – 6% in short run

- Directly proportional to the size of the economy and therefore gives a better indication of its ability to be paid off (if a CAD) than mere nominal figures

c) Explain TWO possible reasons for the change in the balance of Goods and Services

from 2010-11 to 2011 – 2012                                          2.

| Criteria | |
|---|---|
| • Clearly explains TWO reasons for the decrease in balance of goods and services | • 3-4 |
| • Clearly explains ONE reason for the decrease in Balance of goods and services or provides a simple explanation of both | • 1-2 |

Answers could include

- Decreased BOGS volumes or decrease in BOGS prices

- Higher growth leading to increase imports

- Decreases in economic growth in Australia's trading partners (European Debt crisis)

d) Analsyse the reasons for Australia's persistent current account deficits          5.

| Criteria | Marks |
|---|---|
| • Clearly analyses a variety of reasons for Australia's CAD | 4-5 |
| • Clearly analyses some reasons for Australia's persistent CAD | 2-3 |
| • Outlines 1 reason for Australia for Australia's CAD | 1 |

Reason could include:

Structural reasons

- Low international competiveness
- Narrow export base – until 2002 long term fall in commodity prices and agricultural prices
- Large imports of elaborately transformed manufactures
- Savings and Investment gap
- Terms of trade

Cyclical reasons
- Interest repayments on the Net Primary Income account
- Exchange rate – valuation effect
- Changes to domestic and global interest rates

**Section III**
**20 Marks**
**Allow about 40 minutes for this section**


**Question 25**

Analyse the role of fiscal policy in achieving the objectives of economic growth, low inflation and external stability in Australia.

END OF PAPER

Fort Street High School

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### Midcourse Examination

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*Total Marks – 70*

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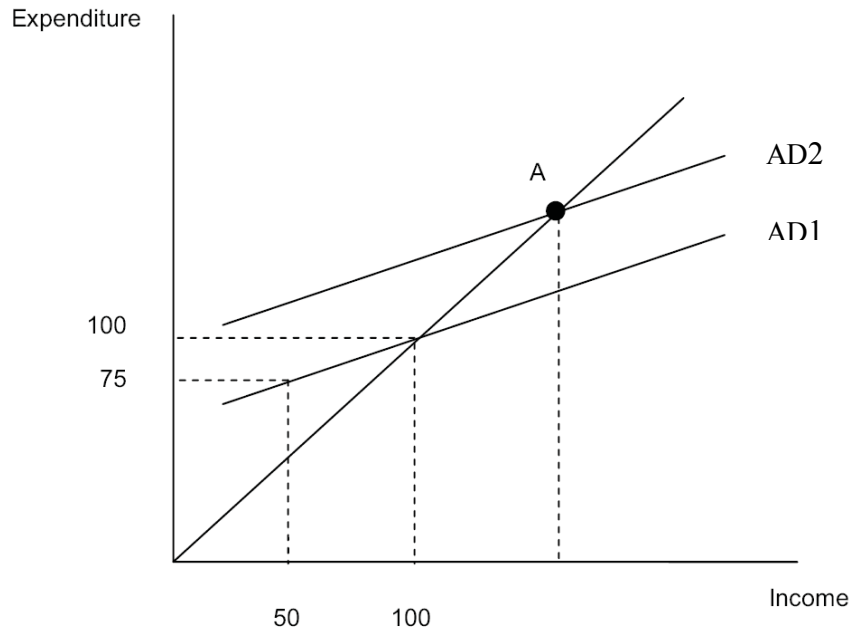
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This question is based on the diagram below.



5. In the diagram above, a $50 increase in investment has shifted the aggregate demand line from AD1 to AD2. What is the value of income at the new equilibrium point A?

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(A) underpriced and underproduced.
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20.  A worsening current account deficit is most likely to be a result of

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**Section II**

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a)    Distinguish between economic growth and ecological sustainable development.   1.

b)  Explain how environmental targets assist policy makers with environmental sustainability.                                                          2.

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c)  Outline the need for regulation to assist with environmental management.        3.

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**Question 22**                                                    **8 Marks**

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Answer needs to include more than it just removes volatile price rises.
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d) Examine why high inflation is a problem for an economy                          5.

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be reluctant to invest due to the uncertainty about prices and costs also leading lower economic growth. This lower investment impacts on Aggregate demand, increases unemployment as demonstrated by the Phillips curve. High rates of inflation also reduce a countries international competitiveness as the prices of its exports rise in comparison to other producing countries. To reduce inflation, higher interest rates (also reducing investment) will be imposed through monetary policy which will lead to an appreciation of the exchange rate impacting on the exports, worsening and the balance of goods and services.

**Question 23**

**The table below provides data regarding a hypothetical government          7 Marks**

| Year | Government Expenditure $b | Taxation Receipts $b |
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| 1 | 120 | 130 |
| 2 | 130 | 135 |
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a) Using data from the table above identify the stance of fiscal policy for Year 3          1

| | |
|---|---|
| • Correctly  identifies an expansionary fiscal policy stance | 1 |

b) Explain how non-discretionary (cyclical) influences impact on the budget outcome during an economic boom.                                                                          2.

| Criteria | |
|----------|---|
| • Clearly explains how  the effect of  cyclical influence related to a boom impacts on the budget outcome | 2 |
| • Provides a simple explanation of how cyclical influences related to a boom will impact on the budget outcome | 1 |

**Answer could include**
Increase in government revenue through income tax, taxes on company profits
Decrease in government transfer payments
Leads to an increase Budget surplus or less budget deficit


c) Discuss two methods the government can use to fund a budget deficit          4.


| Criteria | |
|---|---|
| • Clearly discusses TWO methods of funding a budget deficit | 3-4 |
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- Given the question 4 marks would have clearly looked at advantages and disadvantages of each.

## Question 24:                                                    9 Marks

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|---|---|---|---|---|
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*Source: ABS 2011, Balance of Payments & International Investment Position*


a) Given the data above, calculate the balance on the capital and financial accounts     1.
  for 2011-12

| • Correctly  calculates $41,357 surplus on the capital and financial accounts | 1 |
|---|---|


b) Explain why the Current Account is usually measured as a percentage of GDP.      1.


| • Correctly  provides a reason for the CA is measured as a percentage of GDP | 1 |
|---|---|


Answers could include:

- Allows for comparison over time
- Allows for comparison between countries
- Allows for comparison against benchmarks such as the IMF 4% in long run – 6% in short run

- Directly proportional to the size of the economy and therefore gives a better indication of its ability to be paid off (if a CAD) than mere nominal figures

c) Explain TWO possible reasons for the change in the balance of Goods and Services from 2010-11 to 2011 – 2012                                          2.

| Criteria | |
|---|---|
| • Clearly explains TWO reasons for the decrease in balance of goods and services | • 3-4 |
| • Clearly explains ONE reason for the decrease in Balance of goods and services or provides a simple explanation of both | • 1-2 |

Answers could include

- Decreased BOGS volumes or decrease in BOGS prices

- Higher growth leading to increase imports

- Decreases in economic growth in Australia's trading partners (European Debt crisis)

d) Analsyse the reasons for Australia's persistent current account deficits          5.

| Criteria | Marks |
|---|---|
| • Clearly analyses a variety of reasons for Australia's CAD | 4-5 |
| • Clearly analyses some reasons for Australia's persistent CAD | 2-3 |
| • Outlines 1 reason for Australia for Australia's CAD | 1 |

Reason could include:

Structural reasons

- Low international competiveness
- Narrow export base – until 2002 long term fall in commodity prices and agricultural prices
- Large imports of elaborately transformed manufactures
- Savings and Investment gap
- Terms of trade

Cyclical reasons
- Interest repayments on the Net Primary Income account
- Exchange rate – valuation effect
- Changes to domestic and global interest rates

**Section III**
**20 Marks**
**Allow about 40 minutes for this section**

**Question 25**

Analyse the role of fiscal policy in achieving the objectives of economic growth, low inflation and external stability in Australia.

END OF PAPER

Marking criteria

Answers.

21.

a)  Distinguish between economic growth and ecological sustainable development.   1.

Clearly distinguished between the two terms.

Economic growth refers to an increase in real GDP while ecological sustainable development refers to an increase in GDP which does doe impact on future generations ability to enjoy the same quality of resource use from the environment.

22.

23.

24.

(10 marks)

a)  Using data from the table above identify the type of budget and the stance of fiscal policy from 2004 to 2011.

| Criteria | Marks |
|---|---|
| • Correctly identifies both the type of budget and the fiscal policy stance | 2 |
| • Correctly identifies either the type of budget or the fiscal policy stance | 1 |

*Answers could include*

• *Decreasing surplus budget and an expansionary fiscal policy stance*

b)  Distinguish between discretionary and non-discretionary budget outcomes

| Criteria | Marks |
|---|---|
| • Clearly distinguishes both outcomes | 3-4 |
| • Simple explanation of both outcomes | 1-2 |

*Answers could include*

- *Discretionary –involves policy changes by the government*
- *Non-discretionary – relates to the impact of changing economic conditions on the levels of spending and revenue collection*

c)  Explain the impact of an ongoing budget deficit on the Australian economy

| Criteria | Marks |
|---|---|
| • Clearly explain the impact of an ongoing deficit budget | 3-4 |
| • General reference to a budget deficit | 1-2 |

*Answers could include*

- *Ongoing deficit budgets requires borrowing funds from the private sector leading to the 'crowding out' effect, this can lead to upward pressure on interest rates. This could reduce borrowing for consumption and investment, reduce national savings and thus reduce the level of economic activity. It can add to external instability and increase foreign debt. This will increase the CAD and add to Australia's foreign liabilities.*

22      (10 marks)

a)  What is meant by the term microeconomic policy?

| Criteria | Marks |
|---|---|
| • Correctly defines microeconomic policy | 1 |

*Answers could include*

- *Microeconomic policy - attempts by the government to bring about structural change/reform in the economy .They aim to create greater efficiency amongst industry and in doing so achieve the economic objectives of the government.*

b)      Refer to the diagram above and identify what has happened to the aggregate supply curve.

| Criteria | Marks |
|---|---|
| • Correctly identifies the movement in aggregate supply | 1 |

*Answers could include*

- An increase in aggregate supply – movement to the left from SS to S1S1

c)      Outline ONE microeconomic reform that has contributed to a shift in the  aggregate supply curve

| Criteria | Marks |
|---|---|
| • Correctly outlines ONE microeconomic policy affecting aggregate supply | 2 |
| • General reference to a microeconomic policy | 1 |

*Answers could include*

- *Microeconomic reforms promote structural change in product and factor markets. Any specific examples can be used e.g. labour market, finance market, transport industries – aviation and rail, telecommunications, agricultural industries.*

d)    Examine the impact of microeconomic reform on the Australian economy

| Criteria | Mark |
|---|---|
| • Clearly examines the impact of microeconomic reform | 5-6 |
| • Provides a general discussion of the impact of microeconomic reform | 3-4 |
| • Outlines some aspects of microeconomic reform | 1-2 |

*Answers could include*

- *Microeconomic reforms have improved: productivity, international competitiveness, sustained strong rates of economic growth, improved flexibility, can improve environmental quality, allocative, dynamic and technical efficiency,*