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**2010**  
**Macquarie Fields High School**



**HALF YEARLY HIGHER SCHOOL CERTIFICATE**

Reading Time 5min  
Working time 2hrs

# 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 full name on each page.

Section I

Total marks (20)  
Attempt Questions 1 – 20

Section II

Total marks (30)  
Attempt Questions 21 – 23

Section III

Total marks (20)  
Attempt either Question 24 or  
Question 25

## Section I – Multiple Choice

Total marks (20)

Attempt Questions 1 –20

Answer the questions on the sheet provided

1. Which of the following events would put upward pressure on a floating Australia dollar?
- A. An increase in Australia's interest rates relative to overseas
  - B. An increase in Australia's inflation rate relative to overseas
  - C. A fall in Australia's terms of trade
  - D. A fall in Australia's trade weighted index

*The following table shows the population and GDP figures for different countries*

Country	Population (millions)	GDP (\$b)
A	130	10
B	400	30
C	150	15
D	60	5

2. Referring to the figures above, which country has the highest level of economic development?
- A. Country A
  - B. Country B
  - C. Country C
  - D. Country D
3. What is the difference between the value of a country's exports and imports known as?
- A. Balance of trade
  - B. Capital and financial account
  - C. Current account
  - D. Balance of payments
4. Which of the following international organisations has as its main aim in providing financial assistance for economies experiencing financial difficulties
- A. The World Bank
  - B. International Monetary Fund (IMF)
  - C. World Trade Organisation (WTO)
  - D. The organisation for Economic Co-operation and development (OECD)
5. Which of the following would most likely improve Australia's international competitiveness in the long- run?
- A. Depreciation of the Australian dollar
  - B. Reduced transport costs in Australia
  - C. Reduced interest rates
  - D. A larger budget deficit

6. Which of the following most likely indicates a trend towards greater globalisation?
- Increases in the volatility of world interest rates
  - Increases in the value of global trade as a proportion of total output
  - Increases in the trade barriers between countries
  - Increases in the growth rates of developing nations
7. Which measurement of Australia's exchange rate give the best comparison to our main trading partners?
- \$A per \$US
  - \$A per Euro
  - The trade weighted index
  - Flexible exchange rate
8. Which of the following best indicator changes in Gross Domestic Product per capita?
- Changes in the quality of life
  - Changes in income distribution
  - Changes in economic growth
  - Changes in environmental quality

This question is based on the following Table which shows the output of Computers and CD players in two countries X and Y, using the same amount of time (one week) and labour resources.

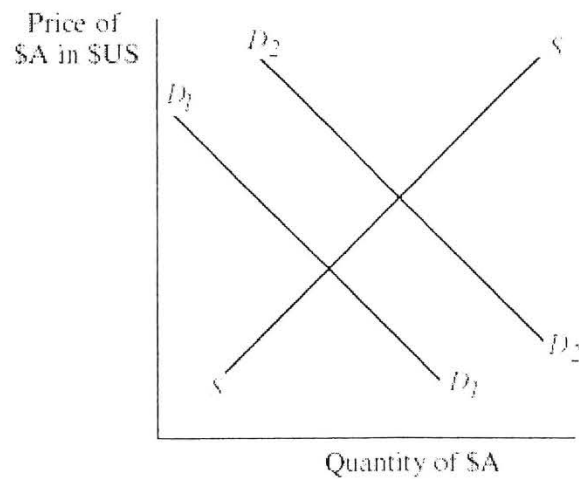
Table 1

<i>COMMODITY</i>	<i>Country X</i>	<i>Country Y</i>
<b>Computers</b>	150	200
<b>CD players</b>	30	100

9. According to the table, Country Y has:
- a comparative advantage in the production of computers
  - more resources devoted to computer production than Country X
  - a comparative advantage in the production of CD players
  - cheaper labour costs per unit of output than Country X
10. The purchase of shares in an Australian company by Japanese investors will appear in Australia's balance of payments as:
- a credit on the Capital and Financial Account.
  - a credit on the Current Account.
  - a debit on the Capital and Financial Account.
  - a debit on the Current Account.
11. Which combination of policies would provide the greatest stimulus to domestic employment and output in the short run?
- Increasing tariffs and providing subsidies for exports.
  - Lowering quotas on imports and placing taxes on exports.
  - Decreasing tariffs and providing subsidies for exports.
  - Imposing quotas on imports and placing taxes on exports.

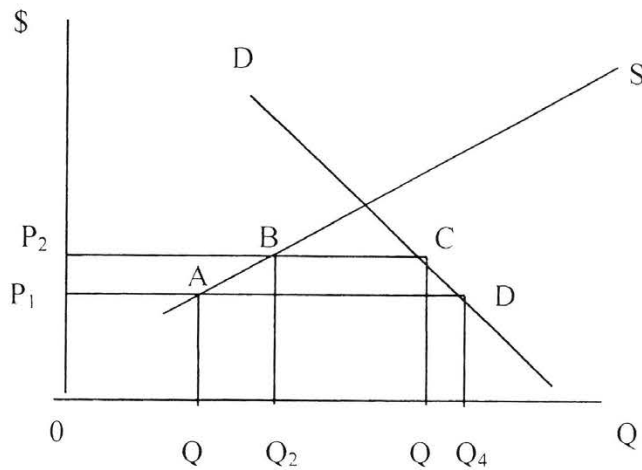
12. When does a capital outflow on the Australian Balance of Payments occur?
- When Australian firms sell capital goods on overseas markets.
  - When Australian firms buy shares in overseas companies.
  - When Australian firms form a joint venture with overseas companies.
  - When Australian firms buy capital goods from overseas, to be used in production within Australia.
13. Direct investment occurs when a foreign firm owns a minimum percentage of an Australian company's ordinary shares. What is the minimum percentage?
- 5%
  - 10%
  - 20%
  - 25%

14. The following diagram shows the demand for and the supply of the Australian dollar in the foreign exchange market.



15. Which one of the following is likely to cause a shift in the demand curve from  $D_1$  to  $D_2$ ?
- Increased capital inflow and increased demand for imports
  - Decreased capital inflow and increased demand for exports
  - Decreased capital inflow and increased demand for imports
  - Increased capital inflow and increased demand for exports

The following diagram shows the imposition of a tariff on cars imported into Australia.



16. The diagram above shows that the tariff is equal to:
- $OP_1$  and leads to an expansion in domestic demand from C to D.
  - $P_1P_2$  and leads to a contraction in domestic supply from B to A.
  - $OP$  and leads to a contraction in domestic demand from D to C.
  - $P_1P_2$  and leads to an expansion in domestic supply from A to B.
17. Which of the following is a possible disadvantage of globalisation for Australia?
- greater access to world markets for Australian producers
  - increased range of consumer goods for Australians
  - greater reliance on overseas economic conditions
  - improved access to international sources of finance
18. Which of the following best describes Australia's present system of exchange rate determination?
- fixed exchange rate.
  - flexible peg exchange rate.
  - floating exchange rate.
  - 'dirty float' or managed float exchange rate.
19. Question 19 refers to the Table below showing balance of payments data for an imaginary country

	<b>\$ Billion</b>
<b>Imports</b>	200
<b>Exports</b>	300
<b>Service Credits</b>	175
<b>Service Debits</b>	100
<b>Net Income and Transfers</b>	100

The Balance of Payments on Current Account is a :

- \$25B surplus
- \$275B deficit
- \$275B surplus
- \$225B deficit

20. Refer to the information in the table below

**Table 2**

<i>YEAR</i>	<i>Export Price Index</i>	<i>Import Price index</i>
<b>1</b>	100	100
<b>2</b>	110	105
<b>3</b>	115	125

Which of the following shows the correct trend for the terms of trade in Table 2?

- A. deteriorated between Year 1 and Year 2
- B. improved between Year 1 and Year 2
- C. improved between Year 2 and Year 3
- D. improved between Year 1 and Year 3



**Question 22 (10 marks)**

*'Recently China has seen a significant increase in the flow of foreign direct investment into the country. Given its scale compared to most developing countries, this investment is critical for its growth by giving TNC's competitive advantages. Investment in China reached a record US\$92.4 billion in 2008, excluding financial investment. With the constant change in the world's economy, it is inevitable to bring a certain degree of challenge in developing economies.'*

Source: Ministry of Commerce of the People's Republic of China.

(a) **Outline** TWO common features of developing economies 2

- i. ....
- ii. ....

(b) Briefly **explain** why economic development indicators may be a better measure of living standards within an economy than economic growth. 2

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(c) **Explain** the role of foreign investment in generating growth in developing economies. 3

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### **Section III – Extended response**

**Attempt either Question 24 or Question 25**

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 24. (20 marks)**

Outline the factors affecting demand for the Australian Dollar and examine the effects of fluctuations in the exchange rate on the Australian economy.

**OR**

#### **Question 25. (20 marks)**

Outline Australia's trade and financial flow patterns and examine the implications of Australia's policies regarding free trade and protection.