



ABBOTSLEIGH

2016

TRIAL HIGHER SCHOOL
CERTIFICATE

Economics

General Instructions

- Write your Student Number at the top of this page.
- Write using black or blue pen. Black pen is preferred
- Board approved calculators can be used.

TOTAL MARKS – 100

WEIGHTING - 30%

TIME ALLOWED - 3 hours and 5 minutes reading time

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

SECTION III - 20 marks

- Attempt Question 25 **or** 26
- Allow about 35 minutes for this section

SECTION IV - 20 marks

- Attempt Question 27 **or** 28
- Allow about 35 minutes for this section

Section I

20 marks

Attempt Questions 1-20

Allow about 35 minutes for this section

Use the Multiple Choice Answer Sheet provided.

Select the alternative A, B, C, or D that best answers the question. Fill in the response oval completely.

Sample $2 + 4 =$ (A) 2 (B) 6 (C) 8 (D) 9

A B C D

If you think you have made a mistake, put a cross through the incorrect answer and fill in the new answer.

A B C D

If you have changed your mind and have crossed out what you consider to be the correct answer, then indicate this by writing the word *correct* and drawing an arrow as follows:

A B ^{correct} C D

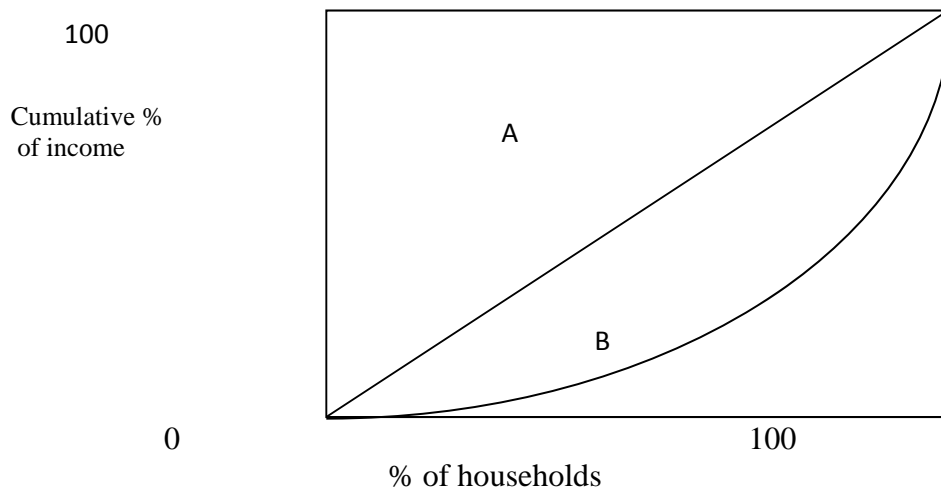
1. What is the short-run relationship between unemployment and inflation known as?

- (A) Economic growth
- (B) Okun's Law
- (C) Phillips curve
- (D) Inflationary expectations

2. What could cause a shift to the left in the aggregate supply curve for a country?

- (A) A rise in per-unit production costs
- (B) A fall in per-unit production costs
- (C) A fall in private spending
- (D) A rise in private spending

3. Use the diagram below to answer Question 2:



What effect would a shift of the Lorenz curve (B) towards the diagonal line (A) have on the Gini coefficient and distribution of income?

| | Gini Coefficient | Distribution of Income |
|-----|-------------------------|-------------------------------|
| (A) | Increase | More equitable |
| (B) | Decrease | More equitable |
| (C) | Decrease | Less equitable |
| (D) | Increase | Less equitable |

4. What does an improvement in the terms of trade mean?

- (A) The current account will be in deficit
- (B) A given volume of exports will buy less imports
- (C) The current account will be in surplus
- (D) A given volume of exports will buy more imports

5. What impact will an appreciation of the \$A against the Trade Weighted Index (TWI) have on the economy?

- (A) Increase demand for our exports
- (B) International competitiveness will decrease
- (C) Increase the cost of imported raw materials
- (D) Increase the effective rate of protection to Australian industry

6. What is the theoretical basis for free trade?
- (A) Comparative advantage
 - (B) Law of diminishing marginal utility
 - (C) Absolute advantage
 - (D) Perfect competition
7. Which of the following is true of public goods?
- (A) Free riders are unable to access them
 - (B) One person's consumption impairs another person's use
 - (C) It is difficult to exclude nonpayers from enjoying the benefit
 - (D) The demand increases with rises in income
8. How would the transfer of copyright ownership from an Australian company to a Chinese company be recorded in Australia's Balance of Payments?

| | | |
|-----|-----------------|--------|
| (A) | Capital Account | Debit |
| (B) | Capital Account | Credit |
| (C) | Primary Income | Debit |
| (D) | Primary Income | Credit |

9. Which of the following is a reason for local content rules?
- (A) To guarantee higher quality production
 - (B) To improve the dynamic efficiency of an economy
 - (C) To provide an alternative source of government revenue
 - (D) To maintain culturally and politically significant production

10. Which of the following organisations would be the primary lender to Turkey in the event of a Balance of Payments crisis in that country?
- (A) World Bank
 - (B) World Trade Organisation
 - (C) Organisation for Economic Cooperation and Development
 - (D) International Monetary Fund
11. Which of the following would be the most appropriate market-based economic policy to address the externalities associated with junk food?
- (A) Impose a tax on the sale of junk food
 - (B) Ban junk food
 - (C) Pay a subsidy to the suppliers of junk food
 - (D) Impose laws on where junk food can be sold and how it is marketed
12. What is the likely impact of a decision by the RBA to cut the cash rate?
- (A) An increase in capital inflows and an appreciation of the exchange rate
 - (B) An increase in capital outflows and an appreciation of the exchange rate
 - (C) An increase in capital outflows and a depreciation of the exchange rate
 - (D) An increase in capital inflows and a depreciation of the exchange rate
13. Which of the following policy objectives are most likely to be in conflict?
- (A) Maintaining price stability and achieving full employment
 - (B) Increasing economic growth and achieving full employment
 - (C) Maintaining price stability and external stability
 - (D) Improving environmental management and external stability

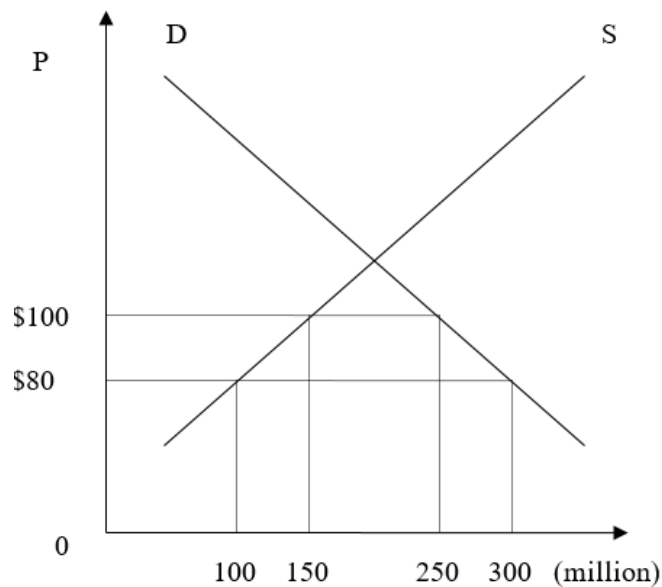
14. The table below shows data for a hypothetical economy.

| Year | Income (million) | Consumption (million) | Savings (million) |
|------|------------------|-----------------------|-------------------|
| 1 | 2000 | 1200 | 800 |
| 2 | 4000 | 2400 | 1600 |
| 3 | 6000 | 3600 | 2400 |

What will be the level of income in Year 4 if there is an increase in investment spending of 50 million?

- (A) \$6,000 million
- (B) \$6,050 million
- (C) \$6,100 million
- (D) \$6,125 million

15. The diagram below shows the effect of the imposition of tariff on the market shoes, where the world price for shoes was \$80. What is the increase in domestic supplier revenue as a result of this tariff?



- (A) \$1,500 million
- (B) \$7,000 million
- (C) \$8,000 million
- (D) \$30,000 million

16. If the headline inflation rate is 1.7 per cent, but during the period there was a significant increase in tobacco prices due to the introduction of a new tax, which of the following is implied?
- (A) Underlying inflation will be higher than headline inflation because headline inflation excludes the impact of one-off or volatile price changes
 - (B) Underlying inflation will be lower than headline inflation because headline inflation excludes the impact of one-off or volatile price changes
 - (C) Underlying inflation will be higher than headline inflation because underlying inflation excludes the impact of one-off or volatile price changes
 - (D) Underlying inflation will be lower than headline inflation because underlying inflation excludes the impact of one-off or volatile price changes

17. The table below shows data for a hypothetical economy.

| Year | Population | Working age population | Full time employment | Part-time employment | Unemployed |
|------|------------|------------------------|----------------------|----------------------|------------|
| 1 | 20 | 16 | 10 | 3 | 2 |
| 2 | 25 | 17 | 9 | 2 | 2 |
| 3 | 30 | 18 | 8 | 3 | 3 |

Which of the following is true with respect to the participation and unemployment rates between Year 2 and Year 3?

| | Participation rate | Unemployment rate |
|-----|--------------------|-------------------|
| (A) | Rises | Rises |
| (B) | Rises | Falls |
| (C) | Falls | Rises |
| (D) | Falls | Falls |

18. The RBA intends to reduce the cash rate. Which of the following best represents how they would implement this change?

| | Buy or sell government securities | Change in exchange settlement funds |
|-----|--|--|
| (A) | Buy | Increase |
| (B) | Buy | Decrease |
| (C) | Sell | Increase |
| (D) | Sell | Decrease |

19. Which of the following is most likely to be required if a country wants to fix its exchange rate below the equilibrium rate?

- (A) The central bank must sell the domestic currency and/or cut official interest rates
- (B) The central bank must buy the domestic currency and/or cut official interest rates
- (C) The central bank must sell the domestic currency and/or increase official interest rates
- (D) The central bank must buy the domestic currency and/or increase official interest rates

20. The following table refers to a hypothetical economy.

| | \$ billion |
|-----------------------------|-------------------|
| Goods | |
| Credits | 65.2 |
| Debits | 63.8 |
| Net services | -9.2 |
| Net primary income | -8.4 |
| Net secondary income | -1.5 |
| Capital account | 5.4 |
| Financial account | 12.3 |

Which of the following is correct?

| | Balance on goods and services (BOGS) | Current account balance |
|-----|---|--------------------------------|
| (A) | Surplus | Surplus |
| (B) | Surplus | Deficit |
| (C) | Deficit | Surplus |
| (D) | Deficit | Deficit |

END OF SECTION I

Section II

40 marks

Attempt Questions 21–24

Allow about 1 hour and 15 minutes for this section

- Answer the questions in the spaces provided. These spaces provide guidance for the expected length of response.
- Extra writing space is provided on pages 18 and 19. If you use this space, clearly indicate what question you are answering.

Question 21 (10 marks)

a) Describe the goals of ecologically sustainable development. (2 marks)

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b) Define the term ‘free rider’, and explain why private markets cannot be relied on to supply public goods. (2 marks)

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Section III

20 marks

Attempt EITHER Question 25 OR Question 26

Allow about 35 minutes for this section

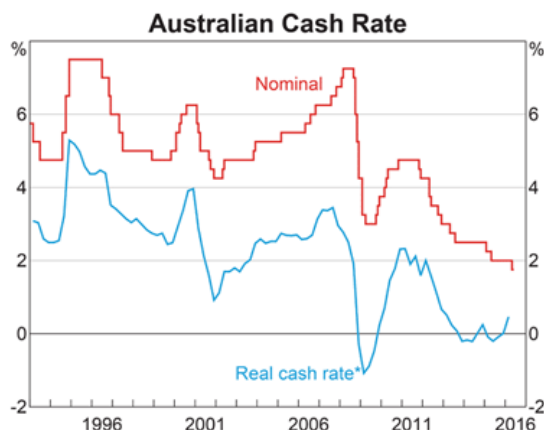
Answer the question in a SEPARATE writing booklet. Extra writing booklets are available.

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

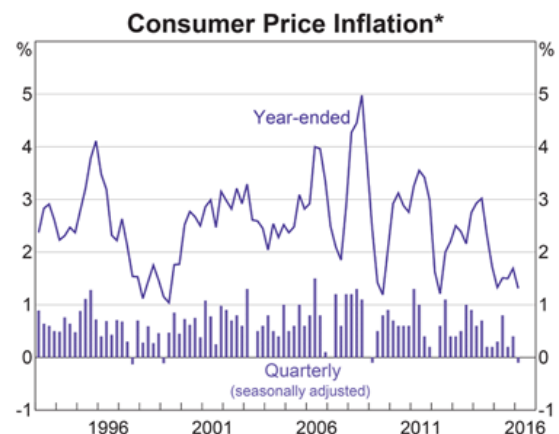
- demonstrate knowledge and understanding relevant to the question
- use the information provided
- apply relevant economic terms, concepts, relationships and theory
- present a sustained, logical and cohesive response

Question 25 (20 marks)

Describe how the RBA implements monetary policy, and explain how changes in the cash rate affect the Australian economy. In your response you should refer to the economic information provided below.



* As of March 2016; Calculated using average of year-ended weighted median inflation and year-ended trimmed mean inflation
Sources: ABS; RBA



* Excluding interest charges prior to the September quarter 1998 and adjusted for the tax changes of 1999–2000
Sources: ABS; RBA

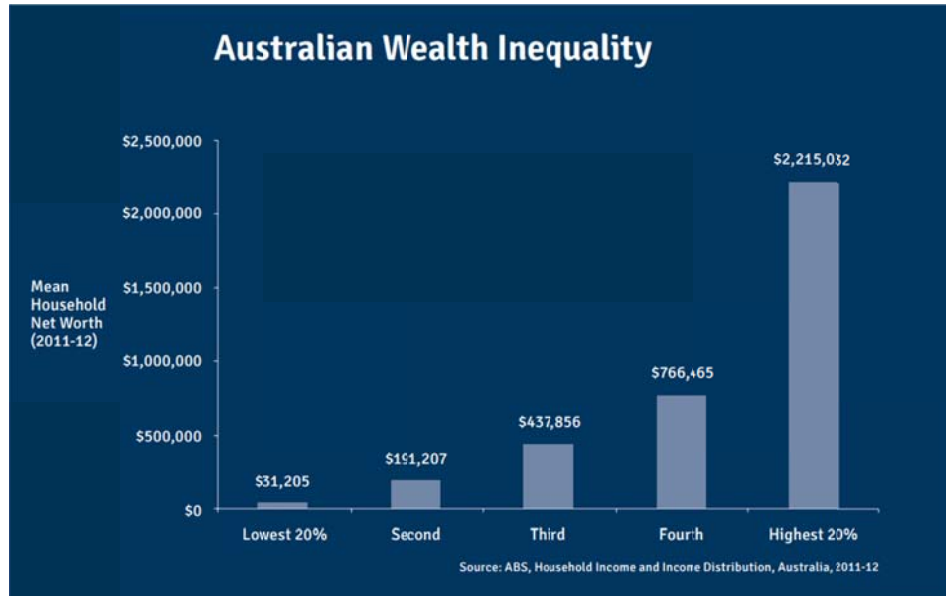
Low interest rates have been supporting domestic demand and the lower exchange rate since 2013 is helping the traded sector. Financial institutions are in a position to lend and credit growth has been moderate. These factors are all assisting the economy to make the necessary economic adjustments...

- Stevens, G. (5 July 2016), *Statement on monetary policy*, Reserve Bank of Australia

OR

Question 26 (20 marks)

Discuss the consequences for Australia of an unequal distribution of income and wealth, and the policies that can be used to address this issue. In your response, you should refer to the economic information provided below.



In recent decades the income share of the top 1 per cent has doubled, and the wealth share of the top 0.001 per cent has more than tripled. At the same time, poverty is increasing and many of those dependent upon government benefits, including the unemployment benefit, have fallen well below the poverty line.

- *Australia21 (2014), Advance Australia Fair? What to do about growing inequality in Australia*

Section IV

20 marks

Attempt EITHER Question 27 OR Question 28

Allow about 35 minutes for this section

Answer the question in a SEPARATE writing booklet. Extra writing booklets are available.

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
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Question 27 (20 marks)

Analyse the possible effects of domestic AND global free trade and protection policies on the Australian economy.

OR

Question 28 (20 marks)

Explain why Australia's unemployment rate remains above the NAIRU, and analyse the social and economic effects of unemployment.

END OF EXAMINATION