CRANBROOK

HSC TRIAL EXAMINATION

2001

ECONOMICS

Reading time – 5 minutes

Working time – 3 hours

Write using blue or black pen
Board-approved calculators may be used
Write your Student Number on all Sections

DIRECTIONS TO CANDIDATES

- **Section I**   Total marks (20)
  Attempt Questions 1 - 20
  Allow about 35 minutes for this section

- **Section II**   Total marks (40)
  Attempt Questions 21 – 24
  Allow about 1 hour and 15 minutes for this section

- **Section III**   Total marks (20)
  Attempt either Question 25 or Question 26
  Allow about 35 minutes for this section

- **Section IV**   Total marks (20)
  Attempt either Question 27 or Question 28
  Allow about 35 minutes for this section

Section I

Total marks (20)
Attempt Questions 1 - 20

Mark your answers on the Answer Sheet provided. Write your student number at the top right-hand corner of your answer sheet. In all cases, select the alternative A, B, C, or D that most fully and correctly answers the question.

1   Which of the following would lead to an increase in hidden unemployment?

   (A)   lower rates of inflation
   (B)   higher rates of inflation
   (C)   lower rates of economic growth
   (D)   higher rates of economic growth

2   Which of the following is an example of an externality?

   (A)   An increase in the size of the current account deficit
   (B)   Pollution control devices on cars
   (C)   A rise in overseas oil prices
   (D)   Increased traffic congestion

3.   Other things being equal, what factor is most likely to increase the structural surplus of the Australian government/s budget?

   (A)   the introduction of a new tax
   (B)   unemployment falling to its 'natural rate'
   (C)   increased income leading to increased personal income tax payments
   (D)   an increase in the value of the Australian dollar

4   Which of the following most accurately describes 'automatic stabilisers'?

   (A)   operate only when the economy falls into recession
   (B)   do not operate during booms in the business cycle
   (C)   reinforce fluctuations in economic activity
   (D)   counter balance fluctuations in economic activity

5   Strong economic growth in Australia could result in which of the following?

   (A)   a depreciation of the Australian dollar
   (B)   an improvement in the current account deficit
   (C)   a rise in the non accelerating inflation rate of unemployment
   (D)   a fall in tax revenue for the government

6   Given the following information for a hypothetical economy:

        15 - 65 years persons   25 million
        Unemployed persons   2 million
        Employed persons   18 million

What is the unemployment rate?

(A) 8%

(B) 9%

(C) 10%

(D) 11%

7   Which of the following actions by the Reserve Bank is most likely to reduce imported inflation?

(A)   the sale of Australian currency in the foreign exchange market

(B)   the purchase of Australian currency in the foreign exchange market

(C)   the sale of used Commonwealth Government Securities to financial institutions

(D)   the purchase of used Commonwealth Government Securities from financial institutions

8   The following table shows Balance of Payments data for a nation with a floating exchange rate.

        Goods credits   78 000
        Goods debits   — 74 000
        Net Services   -25 000
        Net Income and Current Transfers   -15 000
        Financial Account balance   16 000

What is the balance Capital Account?

(A) $20 000

(B) $20 000

(C) $36 000

(D) $36 000

9   Which of the following best describes the overall aim of microeconomic reform?

(A)   to achieve economic management by influencing demand

(B)   to encourage the efficient operation of markets

(C)   to achieve reform of public trading enterprises

(D)   to implement a tax reform package

10 The diagram shows the demand and supply for the Australian dollar
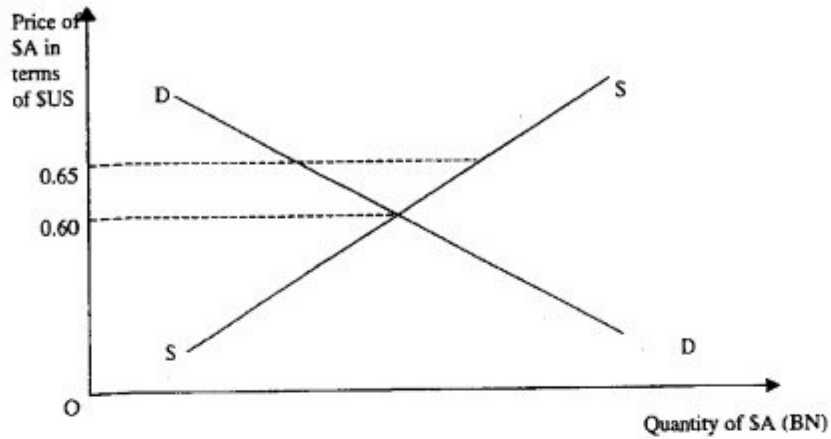
Which of the following would cause a change in the exchange rate from $A1 = $US0.60 to $A1 - $US0.65?

(A) an increase in the demand for Australian for Australian exports
(B) an increase in the demand for imported goods
(C) a decrease in the amount of capital inflow into Australia
(D) an expected fall in the future value of the Australian dollar

11 The following diagram shows an economy which is originally in equilibrium at Point E.
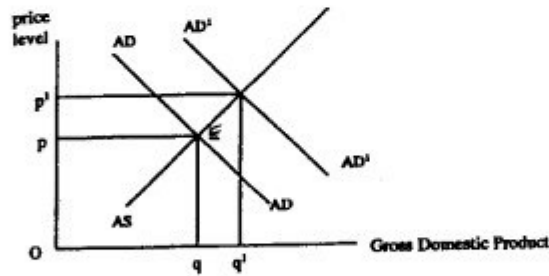
Which of the following could account for the increase in the general price level from Op to Op^1?

(A) cost push inflation
(B) demand pull inflation
(C) a rise in the rate of unemployment
(D) a rise in domestic interest rates

12 Which one of the following is an aim of the World Trade Organisation?

(A) to increase subsidies for manufactured goods

(B) to increase tariffs on agricultural produce

(C) to establish trade blocs like the UE and NAFTA

(D) to reduce levels of trade protectionism

13 Consider the following table.

Year	1	2	3	4
Real GDP ($ billion)	100	125	150	175

What has been the trend in the annual rate of economic growth over the years shown?

(A) It has fallen

(B) It has risen at a constant rate

(C) It has risen at a decreasing rate

(D) It has risen at an increasing rate

14 Which of the following impacts will result from the sale of Commonwealth Government Securities by the Reserve Bank of Australia to financial institutions?

(A) decrease interest rates and contract economic activity

(B) decrease interest rates and expand economic activity

(C) increase interest rates and contract economic activity

(D) increase interest rates and expand economic activity

15 Other things being equal, which one of the following government policies is most likely to increase the inequality of income in the Australian economy?

(A) a more progressive income tax system

(B) increased rebates to lower income earners

(C) a reduction in the cost of government services

(D) a heavier reliance on regressive taxation

16 How could the Commonwealth Government use monetary and fiscal policies to contract the economy in the short run?

(A) increase the budget deficit and increase interest rates

(B) increase the budget deficit and decrease interest rates

(C) increase the budget surplus and increase interest rates

(D) increase the public sector underlying deficit (PSUD) and the cash rate

17 With a given set of resources, Country A can produce twice as many cars and four times as many caravans as Country B. In the production of which good does Country A have a comparative advantage?

   (A) cars only

   (B) caravans only

   (C) cars and caravans

   (D) neither cars nor caravans

18 Which of the following would be included in the public debt?

   (A) liabilities of state governments

   (B) overseas borrowing by Australian companies

   (C) domestic borrowing by Australian companies

   (D) all overseas borrowing of the government and the private sector

19 Which of the following best describes technical efficiency?

   (A) making the right goods in the right quantities

   (B) using the lowest cost production methods

   (C) adapting to changing market conditions

   (D) increasing the use of capital

20

Year	Import Price Index	Export Price Index
1	105	100
2	120	105

Which of the following will follow from the change in the terms of trade from Year 1 to Year 2?

   (A) the current account will move into surplus

   (B) the exchange rate will appreciate

   (C) the current account will move into deficit

   (D) a given volume of exports will buy a smaller volume of imports

SECTION 111

Total marks (20)
Attempt either Question 25 or Question 26

Answer the question in an 8 page writing booklet.

In your essay you will be assessed on how well you:
- use your knowledge and the economic information provided
- apply economic terms, concepts, issues, relationships and theory
- present a sustained, logical and well-structured answer to the question
- demonstrate accurate knowledge and apply, analyse and evaluate

Question 25 (20 marks)

Analyse the impact of economic policies on Australia's economic performance in recent years.

> "Australia's economic policy framework is motivated by the objective of achieving a sustained increase in our growth rate which would in turn allow higher incomes, stronger employment growth and lower unemployment…. With ongoing inflation remaining at low levels, Australia has the opportunity to prolong the current economic expansion and push unemployment to around its lowest rate in over a quarter century…."
>
> 2001 – 01 Budget Paper No.1 3 –20

Year ended June	Cash rate	Underlying Budget Outcome ($b)	Inflation rate	Unemployment rate	Economic Growth	CAD (%GDP)
1996-7	7	-5.3	1.6	8.3	3.8	3.4
1997-8	5	1.2	1.5	8.7	4.8	4.0
1998-9	4.75	4.2	1.25	8.2	5.4	5.7
1999-00	6	12.7	3.2	7.6	4.7	5.4
2000-01	5	2.3	5.75	6.1	3.75	

Question 26 (20 marks)

Evaluate the effectiveness of microeconomic policies in dealing with the problems of the Australian economy in recent years.

> "...one of the roles of microeconomic reform in Australia is to raise the sustainable limit on economic growth above 4.5%; ie, reform parts of the economy so that it can grow at more than 4.5% and not endanger inflation or the CAD."
>
> J Bulmer & JR Chapman, UPDATED ECONOMICS, 2001 (Part B), p80

> "The past decade has seen an extensive range of microeconomic reforms in Australia...... productivity growth has been much stronger, the economy in more internationally competitive and the economy has been able to afford a sustained strong rate... Deregulation of transport, finance and communications industries, tax reform, reduced protectionism, public sector reforms and the opening up of the economy to international forces all have improved Australia's capacity to compete effectively in global markets."
>
> Tim Dixon, *Australia in the Global Economy*, 2000, P173

SECTION 1V

Total marks (20)
Attempt either **Question 27** or **Question 28**
Answer the question in a 4 page writing booklet.

In your essay you will be assessed on how well you:
- use economic data
- apply economic terms, concepts, issues, relationships and theory
- present a sustained, logical and well-structured answer to the question
- demonstrate accurate knowledge and apply, analyse and evaluate

Question 27 (20 marks)

Discuss the consequences of a predicted global slowdown in economic activity on Australian households, firms and the government.

Question 28 (20 marks)

Analyse the impacts that globalisation has had on the standard of living in the global economy over the past decade.

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ECONOMICS

SECTION II

QUESTIONS 21 – 24

Total marks (40)

Attempt Questions 21 – 24

Allow about 1 hour and 15 minutes for this section

SECTION II

Total marks (40)
Attempt Questions 21 - 24

Answer the questions in the spaces provided.

Marks

Question 21 (10 marks)

> Australia is often perceived as an egalitarian society in which everyone has a 'fair go'. However, the economic evidence suggests that Australia is in fact one of the less equal societies in the industrialised world. Over the past ten years the level of inequality in Australia's income distribution have outstripped those of most OECD countries.
>
> Tim Dixon, *Australia in the Global Economy*, 2000, P173

(a)   Using statistical evidence as part of your answer, outline the distribution of   **3**

(i) personal income in Australia

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(ii) personal wealth in Australia

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(b) Account for this inequality in the distribution of income and wealth. Refer to THREE factors in your answer. **3**

(i)

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(ii)

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(iii)

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(c) Evaluate the likely effects of the welfare initiatives announced in the 2001-2002 Budget on the distribution of personal income and wealth in the medium term. **4**

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Question 22 (10 marks)

The table gives selected economic data for Great Country.

Year	% change in real output on previous year	Unemployment Rate (%)	Consumer Price Index	CAD (%GDP)
1	4.8	8.3	120	4.1
2	5.4	7.6	122	5.6
3	4.4	6.9	128	5.7
4	3.0	7.5	136	6.1
5	2.0	8.0	145	6.5

(a) Suggest and explain TWO reasons why Great Country's Current Account is deteriorating. **2**

(i)

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(ii)

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(b) Explain TWO possible consequences of the trend in the CAD to the government of Great Country. **2**

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(ii)

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(c)   With reference to the trends in the economic indicators suggest and explain to the
       government what the main focus of economic policy should be in the short term.   2

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(d)   Outline an appropriate fiscal and monetary policy mix to the government to achieve
       internal and external balance in the short to medium term.   4

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Question 23 (10 marks)

The table gives selected economic data for Australia.

Year (ended June)	Economic Growth	CPI	Cash Rate	Unemployment
1996 - 1997	3.8	120.2	7	8.3
1997 - 1998	4.8	121.0	5	8.7
1998 – 1999	5.4	122.3	4.75	8.2
1999 - 2000	4.7	125.9	6	7.6
2000 – 2001 (est)	3.75	128.2	5	6.1

(a) Calculate the inflation rate for the Australian economy in 1999 – 2000.   **1**

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(b) Identify the relationship between the rate of economic growth and the trend in
unemployment for Australia.   **2**

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(c) Define the "cash rate" and explain the process used to increase the cash rate over 1999 – 2000. **5**

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(d) Why has the Reserve Bank of Australia decided not to follow the global trend in recent months to lower interest rates? **2**

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Question 24 (10 marks)

The diagram below illustrates the effect of tariff protection on domestic demand and supply of particular goods in an economy.
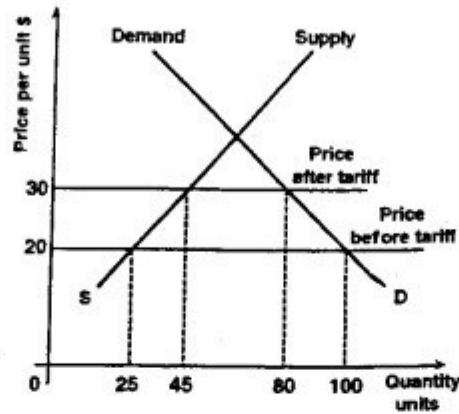
(a)   Explain what in meant by 'tariff protection'   2

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(b)   Calculate   2

      (i) the amount by which the value of domestic demand changes following the
         introduction of tariff protection

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      (ii) the impact on the value of this economy's trade balance following the introduction
         of tariff protection

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(c) Assess the validity of the 'infant industry' argument used to support protection   **3**

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(d) Why have successive Australian governments followed a policy to reduce protection?   **2**

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