



Fort Street High School

Student Number

2011
HIGHER SCHOOL CERTIFICATE
TRIAL EXAMINATION

Economics

General Instructions

- Reading Time: 5 minutes
- Working Time: 3 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)

Total Marks – 100

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 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

This paper **MUST NOT** be removed from the examination room

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.

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

If you change your mind and have crossed out what you consider to be the correct answer, then indicate the correct answer by writing the word “correct” and drawing an arrow pointing to the correct answer.

1. Which of the following is NOT a disadvantage of free trade?
 - (A) The narrowing of export bases within individual economies
 - (B) Structural unemployment
 - (C) Increases in economies of scale
 - (D) Increases in negative externalities

2. Which of the following distinguishes common law employment contracts from statutory employment contracts?
 - (A) Statutory employment contracts allow workers to seek redress through Fair Work Australia
 - (B) Common law employment contracts are collective agreements
 - (C) Statutory employment contracts are more flexible
 - (D) Common law contracts do not guarantee minimum employment standards

3. What would be the effect on the Gini co-efficient and Lorenz curve of an increase in the top marginal rate of taxation?
 - (A) The Gini coefficient will decrease and the Lorenz curve will shift to the left
 - (B) The Gini coefficient will increase and the Lorenz curve will shift to the right
 - (C) The Gini coefficient will decrease and the Lorenz curve will shift the right
 - (D) The Gini coefficient will increase and the Lorenz curve will shift to the left

4. Which of the following is a market-based solution to climate change?
- (A) A ban on carbon pollution
 - (B) A carbon emissions trading scheme
 - (C) A carbon tax
 - (D) Regulation enforcing mandatory carbon emission offsets
5. What are the objectives of the Reserve Bank of Australia?
- (A) Internal and external balance
 - (B) Internal balance, environmental sustainability, fair distribution of income
 - (C) Economic growth, low inflation, low unemployment
 - (D) Low inflation, low unemployment, external stability, economic growth
6. Which of the following is a consequence of high levels of inflation?
- (A) A decrease in Australia's Current Account Deficit
 - (B) An appreciation in the exchange rate
 - (C) An improvement in resource allocation
 - (D) An decrease in business investment
7. Which of the following is a microeconomic reform of a product market?
- (A) Decentralisation of wage determination
 - (B) Deregulation of the dairy (milk) industry
 - (C) Construction of educational infrastructure
 - (D) Deregulation of the financial sector
8. Which of the following organisations is primarily a development agency?
- (A) International Monetary Fund
 - (B) Organisation of Economic Cooperation and Development
 - (C) World Bank Group
 - (D) World Trade Organisation
9. What is the cyclical component of Australia's Current Account Deficit?
- (A) Primary Income
 - (B) Secondary Income
 - (C) Balance on Goods and Services
 - (D) Portfolio Investment

- 10.** Which of the following is an advantage of a subsidy over a tariff as a form of protection?
- (A) A subsidy does not distort the allocation of resources within an economy
 - (B) A subsidy provides revenue for governments
 - (C) A subsidy redistributes income from consumers to producers
 - (D) A subsidy does not cause inflation
- 11.** Which of the following is a possible cost of microeconomic reform?
- (A) Demand-pull inflation
 - (B) Decreased productivity levels
 - (C) Hard-core unemployment
 - (D) Structural unemployment
- 12.** What type of unemployment would result from an increase in interest rates in an economy?
- (A) Structural
 - (B) Cyclical
 - (C) Frictional
 - (D) Seasonal
- 13.** The Marginal Propensity to Consume (MPC) for an economy is 0.6. An increase in investment leads to an increase in national income of \$500m. Other things being equal, what is the value of the increase in investment?
- (A) \$200m
 - (B) \$300m
 - (C) \$1250m
 - (D) \$833m
- 14.** What is the economic basis of international trade?
- (A) Purchasing power parity
 - (B) Absolute advantage
 - (C) Law of diminishing returns
 - (D) Comparative advantage

15. The table shows selected data for two economies

	Economy A	Economy B
Gross Domestic Product	\$59 billion	\$75 billion
HDI	0.82	0.75
Population	2,800,000	4,200,000

Which of the following is true of economy A relative to economy B?

- (A) Economy A has a higher GDP per capita and a lower level of economic development
- (B) Economy A has a lower GDP per capita and a lower level of economic development
- (C) Economy A has a higher GDP per capita and a higher level of economic development
- (D) Economy A has a lower GDP per capita and a higher level of economic development

16. The table shows selected data for an economy

	Population	Population 15+	Unemployed	Employed
Year 1	12,500,000	7,250,000	550,000	4,250,000
Year 2	13,750,000	8,000,000	650,000	4,600,000

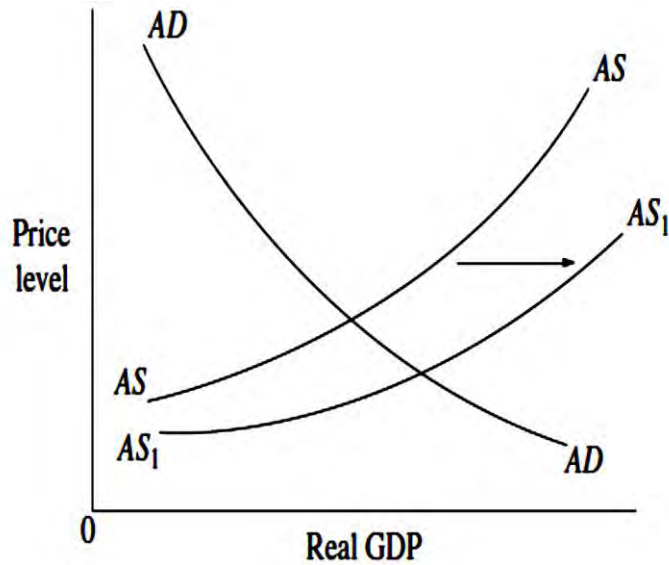
Which of the following is true for this economy?

- (A) The participation rate and unemployment rate have both decreased
- (B) The participation rate and unemployment rate have both increased
- (C) The unemployment rate has decreased and the participation rate has increased
- (D) The unemployment rate has increased and the participation rate has decreased

17. What is the economic purpose of ecologically sustainable development?

- (A) To maintain low inflation
- (B) To maintain intergenerational equity
- (C) To maintain biodiversity
- (D) To maintain internal balance

18. The graph shows the aggregate demand and supply for an economy



Which of the following policies is likely to have caused the change in the graph?

- (A) Decreases in personal income tax rates
- (B) Increases in the minimum wage
- (C) Decreases in regulation
- (D) Loosening of monetary policy

19. The table shows selected data for an economy

Year	Import Price Index	Export Price Index
1	100	100
2	114	109
3	127	124

Which of the following statements is correct?

- (A) The economy experienced a trade deficit in Year 2
- (B) Export volumes increased more than import volumes in Year 3
- (C) The Terms of Trade deteriorated in Year 3
- (D) More exports were required to purchase a given level of imports in Year 2

20. Which of the following categories accounts for Australia's highest expenditure on imports?

- (A) Services
- (B) Consumer goods
- (C) Capital goods
- (D) Intermediate goods

Student Number

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.

Question 21 (10 marks)

Marks

(a) Identify ONE feature of global investment or financial flows

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(b) Explain ONE positive and ONE negative impact of transnational corporations on developing countries.

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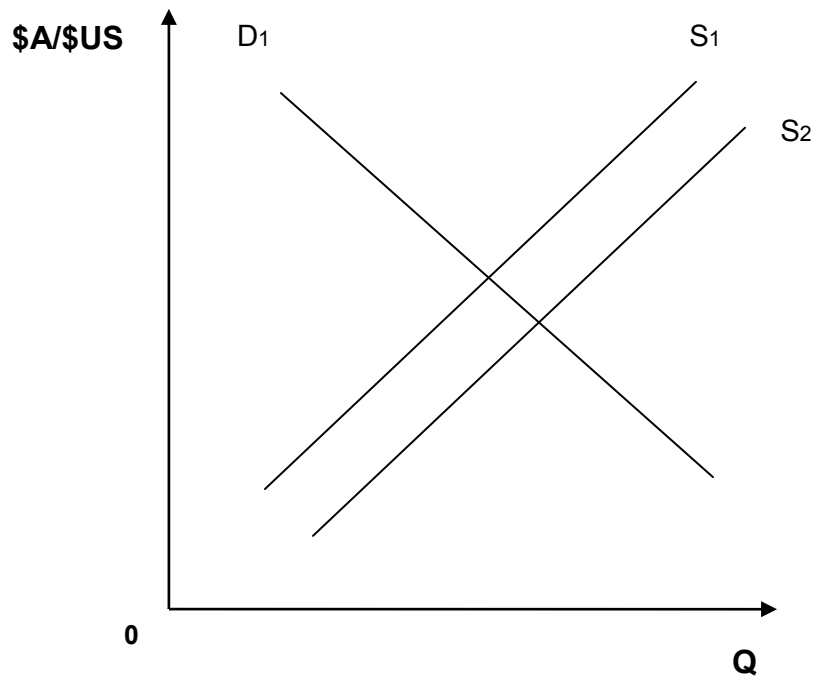
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Question 21 continues on page 8

Question 22 (10 marks)

The diagram below shows the demand and supply of Australian dollars (\$A) in terms of United States dollars (US\$).



- (a) Identify ONE possible factor influencing the change in the value of the Australian dollar 1

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- (b) Outline ONE benefit and ONE cost of a fixed exchange rate system 2

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Question 22 continues on page 10

Question 22 (continued)

- (c) Discuss the impact of the exchange rate valuation effect on Australia's net foreign liabilities 3

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- (d) Examine the effects of an appreciation in the value of the Australian dollar on the Australian economy 4

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End of Question 22

Question 23 (10 marks)

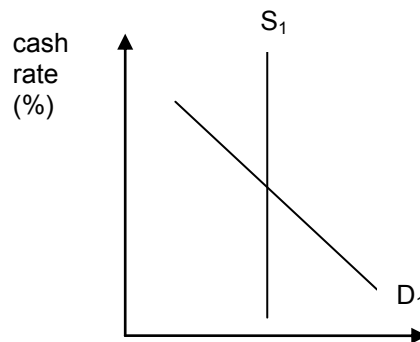
- (a) Define the cash rate 1

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- (b) The graphs shows the market for funds in the short-term money market 1



On the diagram, draw the new equilibrium which results when the RBA loosens monetary policy. Label the new equilibrium price and quantity P_2 and Q_2 .

- (c) Explain TWO limitations of the effectiveness of monetary policy 4

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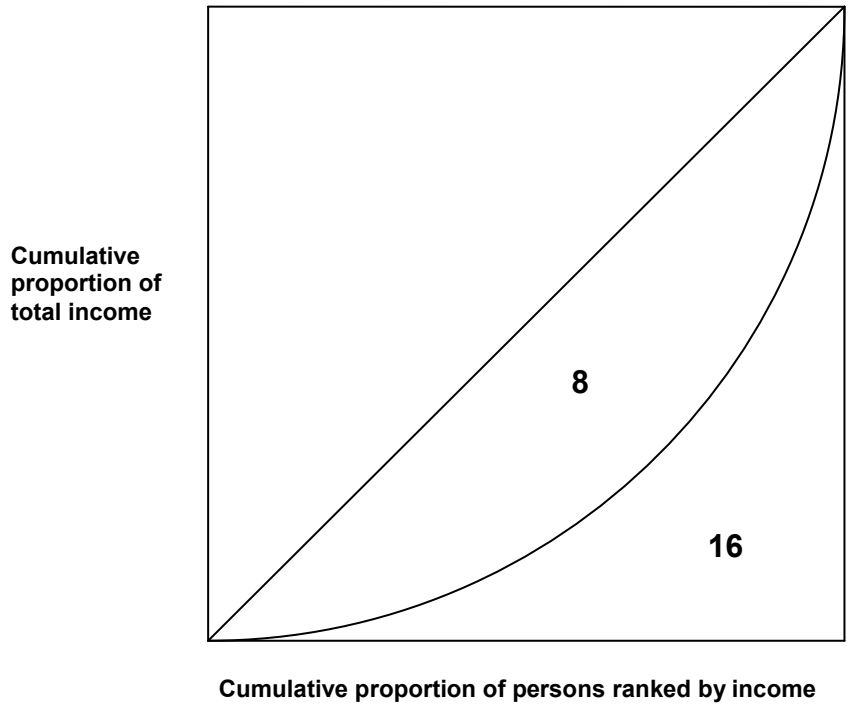
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Question 23 continues on page 12

Question 24 (10 marks)

(a) The graph shows data on income distribution for an economy

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Calculate the Gini coefficient for this economy

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(b) Outline TWO recent policies implemented by the Australian Government to improve income equality in Australia

2

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Question 24 continues on page 14

Question 24 (continued)

- (c) Examine the possible effects of recent labour market reforms on income equality 3
in Australia

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- (d) Analyse the relationship between economic growth and income equality 4

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End of Question 24

2011 TRIAL HIGHER SCHOOL CERTIFICATE EXAMINATION

Economics

Section III

20 marks

Attempt EITHER Question 25 OR Question 26

Allow about 35 minutes for this section

Answer the question on the writing paper provided. Extra writing paper is 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)

Evaluate the methods of financing budget deficits and the uses of budget surpluses

“Contributions to the Future Fund and Nation-building Funds come from the Australian Government's budget surpluses. The Future Fund has also received contributions resulting from the proceeds of the sale of the Government's stake in Telstra in late 2006 and approximately two billion shares in Telstra remaining after this sale process.”

- <http://www.futurefund.gov.au/faqs>

Total Commonwealth Government Securities on Issue - \$197,142m

consisting of:

- Treasury Bonds - \$165,293m
- Treasury Indexed Bonds - \$13,929m
- Treasury Notes - \$17,900m
- Other Securities - \$20m

- *Australian Office of Financial Management, July 2011*

OR

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 26 (20 marks)

Evaluate the alternative policies available to address the external stability of Australia

“Should fiscal policy be systematically tighter than is currently envisaged? It is not clear to me that it should. Australia’s fiscal position is one of the strongest in the world, and is projected to strengthen further over time with growth in the stock of assets in the Future Fund.

None of this is to say that Australia’s current account deficits should be treated with benign neglect. The impressive performance of the Australian macroeconomy since climbing out of the early 1990s recession has been possible because Australia has maintained the confidence of international capital markets over this time, with the result that Australians have been able to borrow internationally on favourable terms.

And with Australia continuing to draw on foreign savings to fund part of its national investment, it remains important for public policy to be crafted with an eye to retaining this confidence. And that means a continued focus on sensible coherent public policies.”

- *David Gruen, Perspectives on Australia’s current account deficit, 2005*

Section IV

20 marks

Attempt EITHER Question 27 OR Question 28

Allow about 35 minutes for this section

Answer the question on the writing paper provided. Start the question on a new page.

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)

Examine the reasons for differences between economies

OR

Question 28 (20 marks)

Discuss the impact of free trade and protection policies on the economic development of Australia

End of paper