2003

NEWINGTON COLLEGE
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 computer number at the top of your answers.

Total Marks – 100

(Section I)

30 marks
Attempt questions 1 – 20
Allow about 35 minutes for this section

(Section II)

40 marks
Attempt Questions 21 – 24
Allow about 1 hour and 15 minutes for this section

(Section III)

20 marks
Attempt either Question 25 or Question 26
Allow about 35 minutes for this section

(Section IV)

20 marks
Attempt either Question 27 or Question 28
Allow about 35 minutes for this section

Outcomes to be assessed in this examination

A student:

H1 demonstrates understanding of economic terms, concepts and relationships

H2 analyses the economic role of individuals, firms, institutions and governments

H3 explains the role of markets within the global economy

H4 analyses the impact of global markets on the Australian and global economies

H5 discusses alternative policy options for dealing with problems and issues in contemporary and hypothetical contexts

H6 analyses the impact of economic policies in theoretical and contemporary Australian contexts

H7 evaluates the consequences of contemporary economic problems and issues on individuals, firms and governments

H8 applies appropriate terminology, concepts and theories in contemporary and hypothetical economic contexts

H9 selects and organises information from a variety of sources for relevance and reliability

H10   communicates economic information, ideas and issues in appropriate forms

H11   applies mathematical concepts in economic contexts

H12   works independently and in groups to achieve appropriate goals in set timelines.

Section I

20 marks
Attempt Questions 1 - 20
Allow about 35 minutes for this section.

Use the multiple-choice answer sheet.

Select the alternative A, B, C or D that best answers the question.

1   Which strand of the industrial relations structure provides a safety net of minimum wages and working conditions for Australian workers?

(A)   Certified agreements
(B)   AWA's
(C)   Industrial awards
(D)   Individual employment contracts

2   Under a decentralised incomes policy structure, which is most likely to determine working conditions and wages?

(A)   Productivity increases
(B)   Market forces
(C)   Overseas trends
(D)   The AIRC

3   Which of the following are characteristics of a contractionary fiscal policy?

(A)   Lower tax rates and lower government expenditure
(B)   Lower tax rates and higher government expenditure
(C)   Higher tax rates and higher government expenditure
(D)   Higher tax rates and lower government expenditure

4   Which of the following statements indicates a limitation on the effectiveness of fiscal policy in Australia?

(A)   It is unable to target specific areas of the economy
(B)   Spending decisions are influenced by the RBA
(C)   The time lag for its impact is generally more than two years
(D)   Budget decisions can often be influenced by political factors

5   Which of the following is an example of a negative externality?

(A)   Increased costs to a company from employing more staff
(B)   Increased environmental understanding as the result of a nature documentary
(C)   Increased noise levels for people living near a new motorway
(D)   Increased business for a petrol station near a new motorway

6   Which of the following best defines the term 'ecologically sustainable development'?

   (A)   Consuming non-renewable resources to increase economic growth
   (B)   Economic growth concurrent with long-term environmental preservation
   (C)   Limiting growth to reduce overdevelopment
   (D)   Sacrificing future consumption to increase present living standards

7   Which of the following is most likely to reduce income inequality?

   (A)   Decreasing government welfare support
   (B)   Increasing consumption tax rates for low income earners
   (C)   The introduction of a more progressive tax scheme
   (D)   Abolition of minimum wages

8   The following diagram represents the market for toenail clippers.
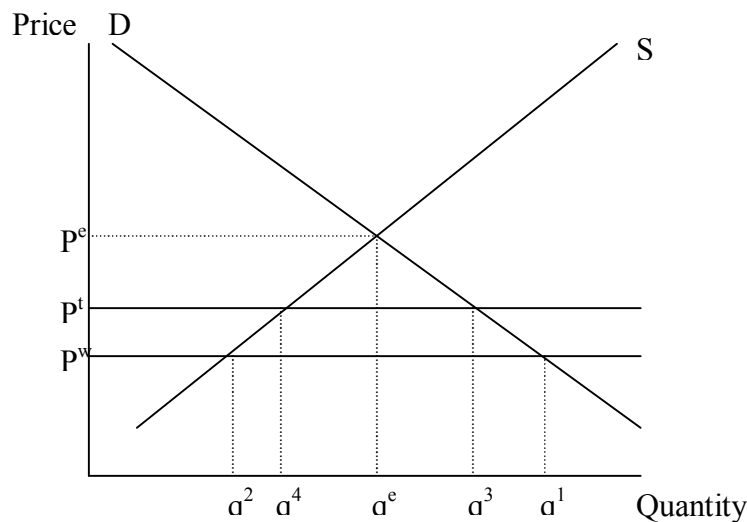
Which of the following is an effect of the removal of the tariff on the importation of toenail clippers?

   (A)   A fall in domestic consumption from q^1 to q^3
   (B)   The achievement of domestic equilibrium quantity q^e
   (C)   An increase in domestic supply q^4 from to q^e
   (D)   An increase in imports from $(q^3 - q^4)$ to $(q^1 - q^2)$

9   Which of the following is the best indicator of the sustainability of Australia's foreign liabilities?

   (A)   The rate of equity inflow
   (B)   The debt servicing ratio
   (C)   The terms of trade
   (D)   The rate of change in GDP

10 Which of the following are benefits of globalisation for low-income countries?

(A) Higher tariffs in developed nations
(B) Increased currency fluctuations
(C) Higher imports from developed nations
(D) Increased technology transfers

11 The following data is for the economy of Keynesianopolis. Assuming the economy is in equilibrium, what is the value of government taxation?

G = $500b   S = $ 250b
I = $ 1000b   M = $ 300b
X = $ 300b

(A) $200b
(B) $500b
(C) $1000b
(D) $ 1250b

12 Assuming a MPC of 0.75, what would be the total increase in GDP resulting from a $100,000 increase in government spending?

(A) $25,000
(B) $75,000
(C) $100,000
(D) $ 400,000

13 Which of the following is said to be achieved when producers are able to respond quickly to changing patterns of consumer demand?

(A) Dynamic efficiency
(B) Technical efficiency
(C) Distributive efficiency
(D) Allocative efficiency

14 Which of the following is best described as an economic benefit of income inequality?

(A) Aggregate consumption is increased
(B) The utility of money is increased
(C) People have greater incentive to work
(D) Lower income groups can get caught in the poverty trap

15 What is the primary aim of vocational and industry training schemes?

(A) To create temporary job placement
(B) To enforce mutual obligation
(C) To reduce structural unemployment
(D) To encourage decentralised income determination

16 Why does microeconomic policy aim to increase competition in product markets?

    (A)   To reduce savings
    (B)   To achieve allocative efficiency
    (C)   To increase unemployment
    (D)   To maximise export growth

17. The following graph was derived from taxation data from the country of Gouda.
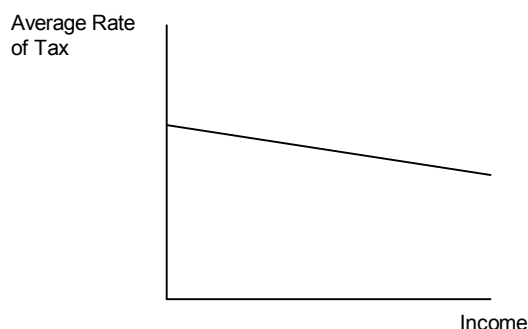
Which of the following taxes would be represented on the graph?

    (A)   A Goods and Services Tax of 10 per cent;
    (B)   A Progressive income tax;
    (C)   Company tax of 30 per cent;
    (D)   A flat or proportional income tax of 22 per cent.

18 Which of the following do macroeconomic policies generally seek to influence in an economy?

    (A)   Aggregate savings
    (B)   Aggregate demand
    (C)   Aggregate supply
    (D)   Aggregate taxes

19 Which of the following is required in order to achieve internal balance?

    (A)   Economic growth and external balance
    (B)   Free trade and ecologically sustainable development
    (C)   Price stability and full employment
    (D)   Sustainable levels of foreign debt and price stability

20 What is the likely result of an improvement in Australia's terms of trade?

    (A)   Higher foreign debt
    (B)   Lower gross domestic product
    (C)   Smaller current account deficit
    (D)   Larger capital and financial account surplus

End of Section I

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Section II

40 marks
Attempt Questions 21 – 24
Allow about 1 hour and 15 minutes for this section.

Answers are to be marked in the spaces provided on the sheet.

Marks

Question 21. (10 marks)

Consider the following statistics for the nation of Robertsonia and answer the questions that follow in the spaces provided.

Year	Economic Growth Rate	Consumer Price Index	Persons Employed ('000)	Total Labour Force ('000)	Current Account Deficit ($ billion)
1	2.25%	110	4200	4500	25
2	2.4%	112	4300	4600	18
3	3.1%	114	4400	4700	19
4	3.9%	119	5100	5400	27
5	4.2%	126	5780	6100	35

(a) Calculate the unemployment rate in Year 4.   **1**

(b) Calculate the inflation rate in Year 5.   **1**

(c) What is meant by the term "natural rate of unemployment"?   **1**

Question 21 continues on page 8

(d) What changes would the Governor of the Reserve Bank of Robertsonia make to the stance of monetary policy for Year 6 and why would s/he make these changes?

_____

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_____

_____

_____

_____

(e) Outline TWO negative impacts of this change to monetary policy for the economy.   **2**

_____

_____

_____

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_____

_____

(f) Account for the trend in the rate of unemployment in Years 3 to 5.   **1**

_____

_____

(g) Outline TWO policies the government could use to reduce the natural rate of unemployment in Robertsonia.   **2**

_____

_____

_____

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_____

_____

Section 2 continues over page.

Section II (continued)

Question 22. (10 marks)

Marks

From the information provided in the table below, answer the questions that follow.

Balance of Payments ($m)		
	Year 1	**Year 2**
Merchandise Trade		
Exports	62,317	65,000
Imports	61,254	68,000
Net Services	-5,842	-5,800
Net Income	-21,536	-22,344
Net Unrequited Transfers	3,011	2,000

(a) What is the value of the Current Account in Year 1?

1

(b) From the table above, which category would the payment by tourists for accommodation in Australia be recorded in?

1

(c) What is external stability?

1

Question 22 continues on page 10

(d) Outline TWO impacts that external instability would have on an economy. **2**

(i) _____

_____

_____

(ii) _____

_____

_____

(e) Distinguish between structural and cyclical components of the current account? **2**

_____

_____

_____

_____

(f) Identify the major reason for the change to the current account deficit from Year 1 to Year 2. **1**

_____

_____

(g) Outline TWO policies the government could use to reduce the current account deficit in this country. **2**

(i) _____

_____

_____

(ii) _____

_____

_____

Section 2 continues over page.

Section II (continued)

Question 23. (10 marks)   **Marks**

The following information concerns structural change and microeconomic reform in Australia.

> "Over a number of years, microeconomic reforms have had a significant cumulative effect on how Australian governments deliver services. Service providers, including government business enterprises, are progressively adopting competitive neutrality principles, operating in a more commercial manner and receiving funding directly from the government budget for identified community service obligations. Australian governments have sought to place government business enterprises on an equal footing with their competitors by progressively increasing the contestability of previously closed markets. Where appropriate, government is structurally dividing business units and separating regulation from administration; it is corporatising many government business enterprises and privatising others. Among other objectives, these changes are designed to benefit consumers by increasing competition."
>
> *Productivity Commission Annual Report 1998*

(a)   What is the aim of microeconomic reform policies?   **1**

(b)   Distinguish between allocative and technical efficiency.   **2**

(c)   Explain why increased competition is important for an economy.   **2**

(d) Explain **TWO** disadvantages associated with recent microeconomic reforms in Australia. **2**

(i) _____

_____

_____

(ii) _____

_____

_____

(e) Describe **THREE** changes to the operation of the Australian labour market in recent years. **3**

(i) _____

_____

_____

(ii) _____

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_____

(iii) _____

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End of question 23

Section II (continued)

Question 24. (10 marks)

Marks

The following information concerns distribution of income and wealth in Country A and Country B.
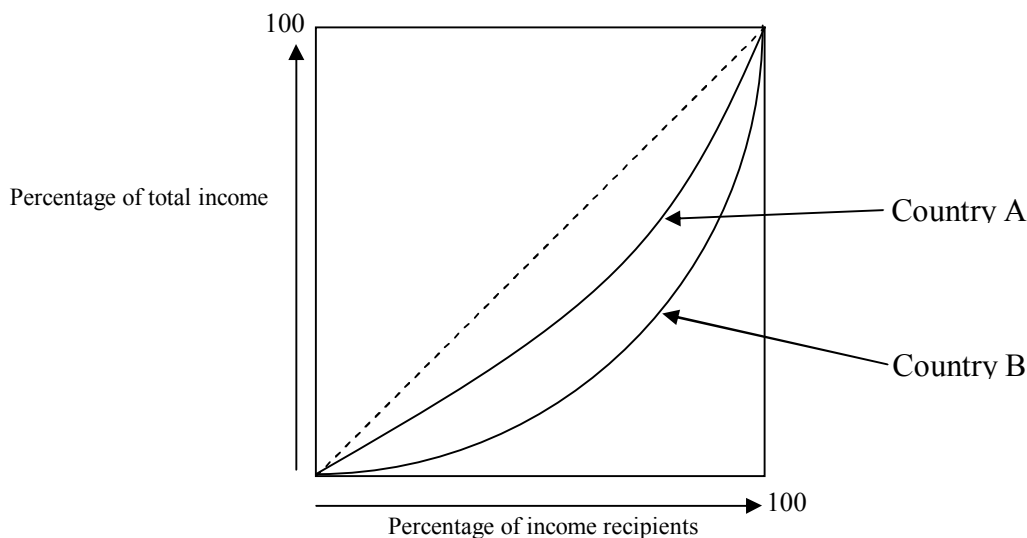
(a) What is a Lorenz Curve?

1

(b) What does the diagram reveal about income distribution in Country A when compared to Country B?

1

(c) Distinguish between income and wealth.

2

(d) Explain **TWO** factors that contribute to the inequality of wealth in Australia.   **2**

(i) _____

_____

_____

(ii) _____

_____

_____

(e) Describe **TWO** benefits and **TWO** costs of income inequality in Australia.   **4**

BENEFITS

(i) _____

_____

_____

(ii) _____

_____

_____

COSTS

(i) _____

_____

_____

(ii) _____

_____

_____

End of question 24

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Section III

20 marks
Attempt either question 25 or 26
Allow about 35 minutes for this section

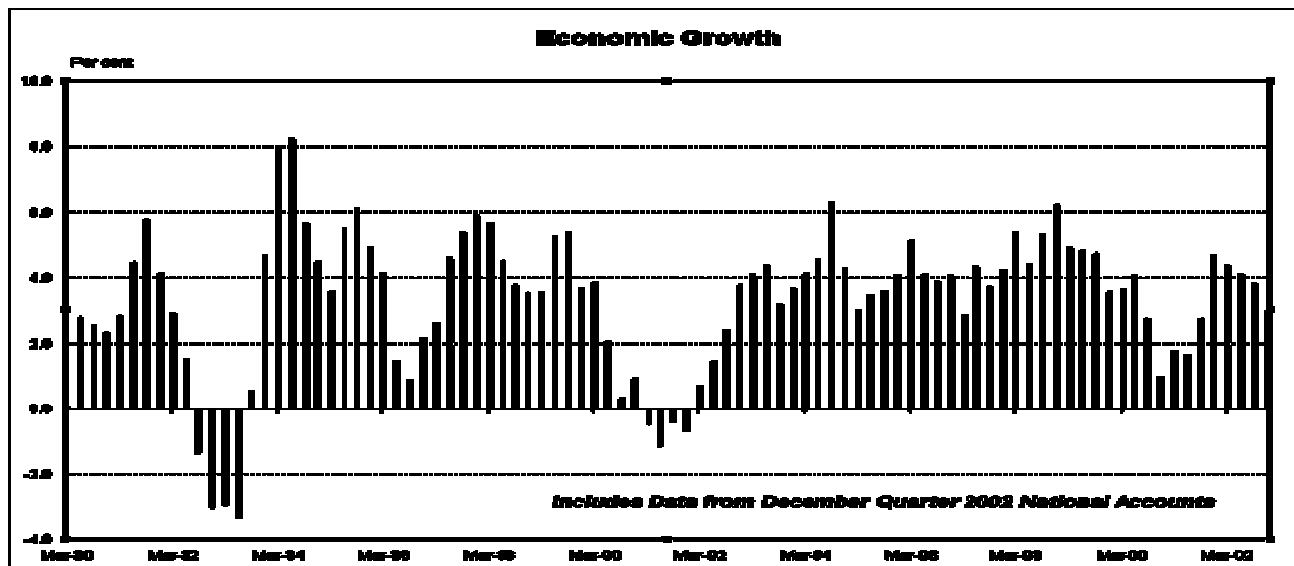Answer the question on the writing paper provided.

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

- Use your knowledge and the economic information provided.

- Apply economic terms, concepts, relationships and theory.

- Present a sustained, logical and well-structured answer to the question.

Question 25 (20 marks)

Discuss the policy options the Government can use to promote and maintain economic growth and environmental management in Australia.

Economic Growth

Includes Data from December Quarter 2002 National Accounts

"And of course the issue of economic management remains central to who ought to govern the country over the next there years. You can't achieve anything in areas like the environment, in areas like health, in areas like education, in areas like aged care unless you have a growing economy."

Prime Minister John Howard – 1st November, 2001

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## Section III (continued)

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

- Use your knowledge and the economic information provided.

- Apply economic terms, concepts, relationships and theory.

- Present a sustained, logical and well-structured answer to the question.

OR

Question 26 (20 marks)

Evaluate the role of monetary policy in achieving the economic objectives of the Australian government.

Inflation
Year-ended

Inflation Expectations
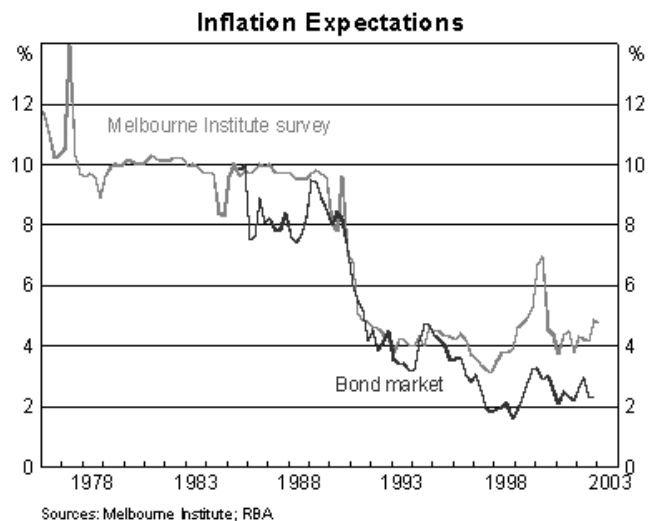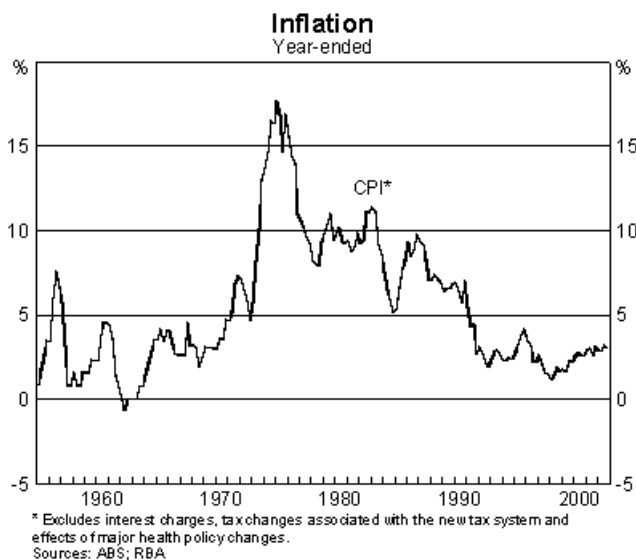
In summary, the current level of interest rates is still relatively low when measured against recent historical benchmarks but, based on the movement in the yield curve, could be interpreted as less expansionary than before. The conclusion that financial conditions remain favourable to growth is supported by broader developments in credit markets. The relatively low level of interest rates charged by financial intermediaries has supported a strong pace of expansion of credit to households, particularly in the form of housing-related loans. While borrowing by businesses from intermediaries has been more subdued, there is no sign that business access to external finance is being constrained from the supply side. Aggregate external funding of businesses has remained at quite a good level throughout 2002, notwithstanding some easing of non-intermediated debt and equity raisings towards the end of the year. Narrowing credit spreads in recent months suggest that the availability of finding to businesses is not being hampered by concerns about credit quality.

Reserve Bank Statement on Monetary Policy, Feb 2003

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Section IV

20 marks
Attempt either question 27 or 28
Allow about 35 minutes for this section

Answer the question on the writing paper provided.

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.

EITHER

Question 27 (20 marks)

Analyse the impact of globalisation on Australia's external stability.

OR

Question 28 (20 marks)

Analyse the impact of the global economy of international organisations and trade agreements.

End of Paper