

2004

**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 What has been the fastest growing type of global capital movement?

- (A) Portfolio investment
- (B) Direct investment
- (C) Foreign aid
- (D) Information technology products

2 The table below represents the production possibilities for two countries

	<i>Country A</i>	<i>Country B</i>
<i>Product</i>	<i>Output</i>	<i>Output</i>
Iron ore	20	10
Machinery	20	15

Which of the following statements is true?

- (A) A has an absolute advantage in both goods
- (B) B has an absolute advantage in iron ore
- (C) A has a comparative advantage in both goods
- (D) B has a comparative advantage in iron ore

3 What will be the impact on the Budget if an economy grows faster than expected?

- (A) The budget surplus will become smaller.
- (B) The cyclical component of the budget surplus will decrease.
- (C) The cyclical component of the budget surplus will increase.
- (D) Tax revenue will fall.

4 An Australian firm located in Sydney makes an interest repayment on an overseas loan. How would this interest repayment be recorded in Australia's Balance of payments?

- (A) As a debit on the Australian Current Account.
- (B) As a credit on the Australian Current account.
- (C) As a debit on the Australian Capital and Financial Account.
- (D) As a credit on the Australian Capital and Financial Account.

- 5 $G = 440\text{bn}$ $I = 800\text{bn}$ $X = 200\text{bn}$ $S = 150\text{bn}$ $M = 290\text{bn}$
If this economy is in equilibrium, what is the value of T ?
- (A) 200bn
 - (B) 500bn
 - (C) 1000bn
 - (D) 1250bn
- 6 Which of the following is the most likely effect of an increase in interest rates?
- (A) Appreciation of the currency and a restraint on inflation.
 - (B) Appreciation of the currency and a stimulus to inflation.
 - (C) Depreciation of the currency and a restraint on inflation.
 - (D) Depreciation of the currency and a stimulus to inflation.
- 7 Which of the following would be an effect of a depreciation of the Australian dollar against the currencies of its trading partners?
- (A) A fall in the quantity of goods exported from Australia.
 - (B) An increase in the quantity of goods imported into Australia.
 - (C) An increase in imported inflation into Australia.
 - (D) A fall in the cost of travelling overseas from Australia.
- 8 Which of the following is likely to cause a decrease in cyclical unemployment?
- (A) An increase in interest rates.
 - (B) An increase in economic growth.
 - (C) A slow down in global economic growth.
 - (D) A decrease in demand for highly skilled workers.
- 9 Which of the following is a result of high levels of protection?
- (A) Encourage high levels of efficiency in the long run
 - (B) Encourage high levels of efficiency in the short run
 - (C) Improve the resource allocation by providing more jobs
 - (D) Result in misallocation of resources in the long run
- 10 What should the Reserve Bank do if it wishes to decrease the supply of funds in the overnight cash market?
- (A) Make market operation sales.
 - (B) Make market operation purchases.
 - (C) Increase the cash rate.
 - (D) Decrease the cash rate.

- 11 Which of the following is an impact of a deterioration in the terms of trade?
- (A) The exchange rate will appreciate in value.
 - (B) Fewer exports are needed to finance the same volume of imports.
 - (C) More exports are needed to finance the same volume of imports.
 - (D) The export price index is growing faster than the import price index.
- 12 Which of the following is **LEAST LIKELY** to reduce the CAD?
- (A) An increase in the budget surplus.
 - (B) A decrease in the budget surplus.
 - (C) An increase in international competitiveness.
 - (D) An improvement in the terms of trade.
- 13 What is the location of the poorest countries listed by the World Bank?
- (A) Middle East
 - (B) North Asia
 - (C) Africa
 - (D) South America
- 14 How does protection reduce consumer sovereignty?
- (A) It increases consumer choice and lowers prices.
 - (B) It decreases consumer choice and raises prices.
 - (C) It causes a misallocation of resources in industry.
 - (D) It raises revenue for the government.
- 15 Which type of inflation is generally associated with rising oil prices?
- (A) Expected.
 - (B) Demand-pull.
 - (C) Inflationary expectations.
 - (D) Cost-push
- 16 What will happen if real wages grow faster than productivity?
- (A) Real unit labour costs will fall.
 - (B) Unemployment will fall.
 - (C) Inflation will fall.
 - (D) A real wage overhang would exist.
17. Other things being equal, what will happen if tariff protection for an Australian industry is reduced?
- (A) The domestic market share for the Australian industry will decrease.
 - (B) Employment in the Australian industry will increase in the short term.
 - (C) Competing foreign products will be more expensive in the Australian market.
 - (D) The price of the industry's product to the domestic consumer will increase.

- 18 Which of the following is likely to reduce inequality in the distribution of income?
- (A) Decrease in the rate of the Goods and Services tax.
 - (B) Abolishing the wage safety net.
 - (C) Introducing a more regressive tax system.
 - (D) Decreasing social welfare expenditure.
- 19 Which of the following is **NOT** an outcome from a program of cuts in protection?
- (A) Lower costs of production for many of the more efficient producers.
 - (B) A tendency for firms to try to become more efficient.
 - (C) Employment increases in other industries.
 - (D) A reduction in real consumption expenditure.
- 20 Which of the following would not remove a structural impediment in the labour market?
- (A) Retaining high minimum wages for young workers.
 - (B) Reducing the availability of the right to take unfair dismissal action.
 - (C) Reducing the role of the arbitration system in determining wages.
 - (D) Reducing access to the right to strike.

End of Section I

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Student Number

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)

One of the major lessons of Australia's economic performance in recent decades is the extent to which macroeconomic policy is relatively ineffective in achieving complex policy goals. Micro reform is much more effective in dealing with longer term problems such as our lack of international competitiveness, high foreign debt and a low level of national savings.

Peter Costello, Federal Treasurer, July 2003

(a) Define the term structural change?

1

(b) Distinguish between technical and dynamic efficiency?

2

(c) Describe how microeconomic reform encourages improved efficiency.

2

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Student Number

Section II (continued)

Question 22. (10 marks)

Marks

Consider the following information for the following hypothetical economy.

Components (\$billions)	
Goods credits	50
Goods debits	-70
Current transfers credits	10
Current transfers debit	-5
Service credits	15
Service debits	-10
Income credits	5
Income debits	-32
Capital transfers credits	20
Capital transfers debits	-15

(a) Calculate the Balance on Current Account. **Show all working.**

2

(c) Explain what is meant by 'capital transfers'?

2

Question 22 continues on page 10

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Student Number

Section II (continued)

Question 24. (10 marks)

Marks

Year	Nominal GDP	CPI
1	200	100
2	210	102
3	232	110

(a) Calculate the nominal rate of inflation for year 3.

1

(b) Calculate the real rate of economic growth for year 2.

1

(c) Explain TWO positive impacts of economic growth on an economy

4

Question 24 part (c) continues over page

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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.

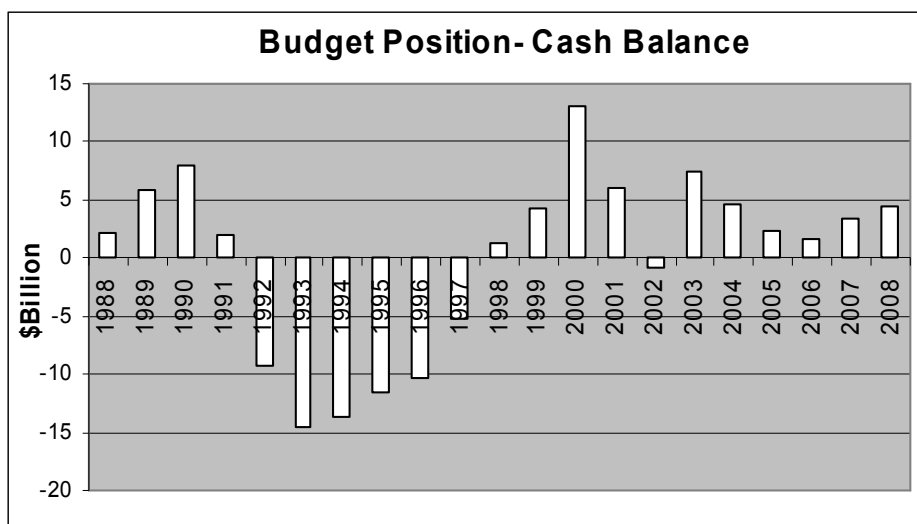
In your answer you will be assessed on how well you:

- 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.
-

EITHER

Question 25 (20 marks)

Evaluate the effectiveness of using fiscal policy to achieve simultaneous internal and external balance.



With the economy stronger than expected this financial year, a rise in taxation receipts has put the Government in a very healthy financial position. Despite longer term concerns over the impact of Australia's ageing population on the expenditure and revenue base, there was a strong community expectation that much of the enlarged financial surplus would be used to either increase expenditure or decrease taxation. The fact this budget covers an election period, added to this expectation. As is normally the case, the Government was faced with the need to balance desires for increased spending and lower taxation with the need to maintain debt reduction and credibility with international financial markets.

Plain English Economics – Topic Paper No.11 May 2004

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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)

Discuss the determinants of Australia's Current Account Deficit and the effectiveness of macro and microeconomic policy responses to the problem.

Australian Balance of Payments MARCH 2004 KEY FIGURES

	Dec Qtr 2003 \$m	Mar Qtr 2004 \$m	Dec Qtr 2003 to Mar Qtr 2004 % change
TREND ESTIMATES			
Balance on current account	-12,028	-11,862	1
Balance on goods and services	-6,197	-6,011	3
Net income	-5,804	-5,809	-
SEASONALLY ADJUSTED			
Balance on current account	-11,805	-11,997	-2
Balance on goods and services	-5,779	-6,267	-8
Net income	-5,947	-5,696	4
ORIGINAL			
Balance on current account	-11,930	-10,140	15
Balance on capital and financial account	12,248	10,339	-16

MARCH KEY POINTS: BALANCE OF PAYMENTS

- The current account deficit, seasonally adjusted, rose \$192m to \$11,997m. The deficit on the balance of goods and services rose \$488m to \$6,267m. The income deficit fell \$251m to \$5,696m.
- In seasonally adjusted chain volume terms there was an increase of \$2,527m in the deficit on goods and services. This could be expected to contribute -1.3 percentage points to growth in the March quarter 2004 volume measures of GDP.

INTERNATIONAL INVESTMENT POSITION

- Australia's net IIP rose \$8b to a net liability of \$478b at 31 March 2004. Transactions of \$10b and price changes of \$1b contributed to this increase. Partially offsetting the increase were exchange rate changes of -\$2b and other changes of -\$1b. Net equity liabilities rose by \$4b, to \$105b, while net debt liabilities rose by \$4b to \$374b.

Source: ABS August 2004

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Economics

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)

Explain the impact of trade agreements on both the global economy and the Australian economy.

OR

Question 28 (20 marks)

Analyse the impact of government policies on the distribution of wealth and the protection of the environment

End of Paper

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Student Number

Section I - Answer Sheet - Teacher answers

Circle the alternative that most fully and correctly answers the question.

- | | | | | |
|-----|------------------------------------|------------------------------------|------------------------------------|------------------------------------|
| 1. | <input checked="" type="radio"/> A | B | C | D |
| 2. | <input checked="" type="radio"/> A | B | C | D |
| 3. | A | B | <input checked="" type="radio"/> C | D |
| 4. | <input checked="" type="radio"/> A | B | C | D |
| 5. | A | B | <input checked="" type="radio"/> C | D |
| 6. | <input checked="" type="radio"/> A | B | C | D |
| 7. | A | B | <input checked="" type="radio"/> C | D |
| 8. | A | <input checked="" type="radio"/> B | C | D |
| 9. | A | B | C | <input checked="" type="radio"/> D |
| 10. | <input checked="" type="radio"/> A | B | C | D |
| 11. | A | B | <input checked="" type="radio"/> C | D |
| 12. | A | <input checked="" type="radio"/> B | C | D |
| 13. | A | B | <input checked="" type="radio"/> C | D |
| 14. | A | <input checked="" type="radio"/> B | C | D |
| 15. | A | B | C | <input checked="" type="radio"/> D |
| 16. | A | B | C | <input checked="" type="radio"/> D |
| 17. | <input checked="" type="radio"/> A | B | C | D |
| 18. | <input checked="" type="radio"/> A | B | C | D |
| 19. | A | B | C | <input checked="" type="radio"/> D |
| 20. | <input checked="" type="radio"/> A | B | C | D |

Marking Guidelines
N.C. Economics Trial HSC 2004
Qn. 21

(a) 1 mark question

0	Does not accurately explain the meaning of structural change
1	Accurately explains the meaning of structural change as the process by which the pattern of production in an economy is altered over time, and certain products, processes of production and even industries disappear, while others emerge.

(b) 2 mark question

0	Does not accurately define either technical or dynamic efficiency
1	Defines technical efficiency as the attempts by business owners to maximise efficiency and minimise costs or explains dynamic efficiency as the ability of producers to respond quickly to the changing patterns of demand in both the domestic and world economy
2	Accurately defines both technical and dynamic efficiency

(c) 2 mark question

0	Does not accurately
1	Accurately describes how micro reform attempts to achieve ONE of technical, dynamic or allocative efficiency.
2	Accurately describes how micro reform attempts to achieve ANY TWO of technical, dynamic or allocative efficiency.

Answers could include:

- micro reform achieves technical efficiency as producers who operate in a competitive market situation have powerful financial incentives to maximise efficiency and minimise costs by adopting the latest production technology and using the least combination of resources.
- micro reform achieves dynamic efficiency as competitive markets tend to embrace structural change much more quickly

(d) 1 mark question

0	Does not accurately define deregulation.
1	Accurately defines deregulation as the simplification or removal of government legislation and other rules that constrain the operation of markets.

(e) 4 mark question

0	Fails to identify any industries that have gone through deregulation
1	Accurately identifies one industry that has gone through deregulation or identifies one benefit of deregulation
2	Accurately identifies two industries that have gone through deregulation and discusses one benefit of deregulation OR identifies one industry and discusses the benefits of its deregulation
3	Accurately identifies two industries that have gone through deregulation and provides only one benefit of deregulation
4	Accurately identifies two industries that have gone through deregulation and provides more than one benefit of deregulation

Marking Guidelines
N.C. Economics Trial HSC 2004

Qn. 22

(a) 2 mark question

0	Does not accurately calculate the Balance on Current Account
1	Calculates the Balance on Current Account but shows no working.
2	Calculates the Balance on Current Account and shows all working

Balance on Current Account = -37

Working: Balance on Current Account = (a) Balance on Goods and Services = Net Goods (50-70) + Net Services (15-10) = -15; PLUS (b) Net Income (5-32) = -27; PLUS (c) Net Transfers (10-5) = +5

(b) 2 mark question

0	Does not accurately explain what is meant by 'capital transfers'
1	Basic definition of capital transfers &/or includes only one type
2	Accurately explains what is meant by 'capital transfers', including at least two of the three major types (see below)

Capital transfers consist of international capital transfers (credit & debit). The most important elements include capital transfers from people (i)migrating into or out of Australia; capital transfers in the form of (ii)foreign aid to assist other nations; and the purchase and sale on (iii)non-produced, non-financial assets such as patents, copyrights, trademarks and franchises.

(c) 2 mark question

0	Fails to outline two items that would be included in the 'Financial Account' in the Balance of Payments.
1	Outlines one item that would be included in the 'Financial Account' in the Balance of Payments OR just names two items
2	Outlines two items that would be included in the 'Financial Account' in the Balance of Payments

Answers could include:

- Direct Investment eg financial transactions to fund new investment or buy more than 10% shares in an existing company.
- Portfolio Investment eg the buying of land, shares and other marketable securities.
- Reserve assets: foreign financial assets controlled by central authorities (eg Reserve Bank) to regulate payment imbalances.
- Other investment: transactions not classified as direct, portfolio or reserve eg financial leases, currency, trade credits.

(d) 4 mark question

0	Fails to outline any possible problems associated with a high CAD.
1	Identifies & outlines one possible problems associated with a high CAD <u>OR</u> only identifies two problems
2	Identifies & outlines two possible problems associated with a high CAD <u>OR</u> only identifies four problems
3	Identifies & outlines three possible problems associated with a high CAD.
4	Identifies & outlines four possible problems associated with a high CAD.

Answers could include:

- The growth of foreign liabilities.
- Increased servicing costs associated with high levels of foreign liabilities.
- Increased volatility for exchange rates.
- Constraint on future economic growth.

Marking Guidelines
N.C. Economics Trial HSC 2004
Qn. 23

(a) 1 mark question

0	Does not accurately calculate the unemployment rate for this nation
1	9% (9.09% to two decimal places)

i.e. $1/11 \times 100/1 = 9\%$ (9.09% to two decimal places)

(b) 1 mark question

0	Does not accurately calculate the labour force participation rate for this nation
1	61% (61.11% to two decimal places)

i.e. $11/18 \times 100/1 = 61\%$ (61.11% to two decimal places)

(c) 4 mark question

0	Fails to identify two relevant major causes of unemployment
1	Identifies one relevant major causes of unemployment
2	Identifies two relevant major causes of unemployment
3	Explains one relevant major causes of unemployment
4	Explains two relevant major causes of unemployment

Answers could include:

- Cyclical factors, inadequate aggregate demand (ie cyclical unemployment)
- Structural factors, mismatch of skills, foreign competition (ie structural unemployment)

(d) 4 mark question

0	Fails to identify any relevant reason
1	Identifies the Natural Rate of Unemployment, the structural rate of unemployment or the NAIRU (the non-accelerating inflation rate of unemployment) OR identifies relevant types of unemployment such as frictional, seasonal, structural (but not cyclical?)
2	Defines the terms Natural Rate of Unemployment, the structural rate of unemployment or the NAIRU, which mean the same thing: the rate of unemployment that can be achieved without suffering a significant rise in the rate of inflation OR defines the types of unemployment such as frictional, seasonal, structural (but not cyclical?)
3	Explains that the government may be able to reduce the unemployment level by adopting appropriate policies that do not ignite inflation

4	Explains that attempts by the government to reduce unemployment first (rather than reducing inflation first) have proven to be unsustainable.
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Q24 Marking Guidelines

(a) 1 mark question

0	Incorrect
1	10.47% ie $22/210 \times 100$

(b) 1 mark question

0	Incorrect
1	8% ie nominal rate=10% minus CPI change of 2

(c) 4 mark question

0	Fails to list or explain any positive impacts of economic growth on an economy
1	Accurately lists one positive impact of economic growth on an economy
2	Accurately explains one positive impact of economic growth on an economy
3	Accurately explains one positive impact and lists another positive impact of economic growth on an economy
4	Accurately explains two positive impacts of economic growth on an economy

(d) 4 mark question

0	Fails to list or outline any negative impacts of high economic growth on an economy
1	Lists one negative impact of high economic growth on an economy
2	Accurately outlines one negative impact of high economic growth on an economy
3	Accurately outlines one negative impact and lists another negative impact of high economic growth on an economy
4	Accurately outline two negative impacts of high economic growth on an economy

Student:.....

Year 12 Economics
2004 Trial HSC Examinations – Question 26

Discuss the determinants of Australia’s Current account Deficit and the effectiveness of macro and microeconomic policy responses to the problem.

Mark Range	Criteria
17-20	<ul style="list-style-type: none">• Integrates appropriate economic terms, concepts, issues, relationships and theory• Develops a sustained logical and well-structured answer that demonstrates the effectiveness of micro/macro policy responses to the CAD.• Demonstrates a precise and extensive knowledge of the CAD, its determinants and policy responses to it in the Australian economy.• Uses relevant economic data to support a contemporary and comprehensive discussion of the impact of the CAD and policy responses to it on the Australian economy.
13-16	<ul style="list-style-type: none">• Consistently uses appropriate economic terms, concepts, issues, relationships and theory• Develops a logical and well-structured that demonstrates the effectiveness of micro/macro policy responses to the CAD.• Demonstrates a correct and appropriate knowledge of the CAD, its determinants and policy responses to it in the Australian economy.• Uses relevant economic data to support a logically developed discussion of the CAD and policy responses to it on the Australian economy.
9-12	<ul style="list-style-type: none">• Uses appropriate economic terms, concepts, issues, relationships and theory• Develops an answer, linking the impact of the CAD on the Australian economy• Demonstrates correct and relevant knowledge of the determinants of the CAD and macro/micro policy responses.• Uses economic data to provide a description of the impact of the CAD on the Australian economy.
5-8	<ul style="list-style-type: none">• Uses some economic terms, concepts, issues, relationships and theory• Develops an answer that refers to the impact of the CAD on the Australian economy• Demonstrates some knowledge of how the CAD and some policy responses have affected the Australian economy.• Makes minimal use of economic data concerning the impact of the CAD on the Australian economy.
1-4	<ul style="list-style-type: none">• Applies some appropriate terminology to communicate economic ideas• Demonstrates limited knowledge of the impact of the CAD on the Australian economy• Presents a limited understanding of economic issues involved with the CAD.• Provides little if any economic data to support their answer

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Mark:.....

Signed.....

Student:.....

Year 12 Economics
2004 Trial HSC Examinations – Question 27

Explain the impact of trade agreements on both the global economy and the Australian economy.

Mark Range	Criteria
17-20	<ul style="list-style-type: none">Integrates appropriate economic terms, concepts, issues, relationships and theoryDevelops a sustained logical and well-structured answer that demonstrates the impact of trade agreements on both the global economy and the Australian economyDemonstrates a precise and extensive knowledge that draws out the impact of trade agreements on both the global economy and the Australian economyUses relevant economic data to support a contemporary and comprehensive discussion of the impact of trade agreements on both the global economy and the Australian economy.
13-16	<ul style="list-style-type: none">Consistently uses appropriate economic terms, concepts, issues, relationships and theoryDevelops a logical and well-structured answer that relates the impact of trade agreements on both the global economy and the Australian economyDemonstrates a correct and appropriate knowledge to relate the impact of trade agreements on both the global economy and the Australian economyUses relevant economic data to support a logically developed discussion of the impact of trade agreements on both the global economy and the Australian economy.
9-12	<ul style="list-style-type: none">Uses appropriate economic terms, concepts, issues, relationships and theoryDevelops an answer, linking the impact of trade agreements on both the global economy and the Australian economyDemonstrates correct and relevant knowledge of how trade agreements have impacted on both the global economy and the Australian economyUses economic data to provide a description of the impact of trade agreements on both the global economy and the Australian economy.
5-8	<ul style="list-style-type: none">Uses some economic terms, concepts, issues, relationships and theoryDevelops an answer that refers to the impact of trade agreements on both the global economy and the Australian economyDemonstrates some knowledge of how trade agreements have impacted on both the global economy and the Australian economyMakes minimal use of economic data concerning the impact of trade agreements on both the global economy and the Australian economy.
1-4	<ul style="list-style-type: none">Applies some appropriate terminology to communicate economic ideasDemonstrates limited knowledge of the impact of trade agreements on both the global economy and the Australian economyPresents a limited understanding of economic issues involved with the global economy and the Australian economyProvides little if any economic data to support their answer

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Mark:.....

Signed.....