2010

TRIAL
HIGHER SCHOOL
CERTIFICATE

Examination Paper

ECONOMICS

General Instructions

- Reading time – 5 minutes
- Working time – 3 hours
- Write using blue or black pen
- Write your student number at the top of this page
- Board approved calculators may be used

Total marks – 100

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 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

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 for Questions 1-20

1   What would be the effect on the Australian economy if all of its major trading partners experienced recessions?

   (A)   Higher economic growth and higher export volumes

   (B)   Higher economic growth and lower export volumes

   (C)   Lower economic growth and lower export volumes

   (D)   Lower economic growth and higher export volumes

2   The table shows selected data for an economy.

Population of Working Age	Full-time Employed	Part-time Employed	Unemployed
20 million	10 million	2 million	1 million

Which of the following statements is correct?

   (A)   The participation rate in the economy is 60%.

   (B)   The participation rate in the economy is 65%.

   (C)   The unemployment rate in the economy is 10%.

   (D)   The unemployment rate in the economy is 5%.

3   What is the likely impact of Japan increasing its quota on the importation of Australian beef?

   (A)   Australian beef farmers will gain increased access to Japanese beef markets.

   (B)   Japanese beef farmers will gain increased protection from Australian beef imports.

   (C)   There will be an increase in employment opportunities in the Japanese beef industry.

   (D)   There will be a decrease in employment opportunities in the Australian beef industry.

Section I continued:

4   A private good has which of the following characteristics?

   (A)   Excludable and non-rival in consumption

   (B)   Rival in consumption and non-excludable

   (C)   Non-rival in consumption and non-excludable

   (D)   Rival in consumption and excludable

5   The following diagram shows the demand and supply for Australian dollars in the foreign exchange market.
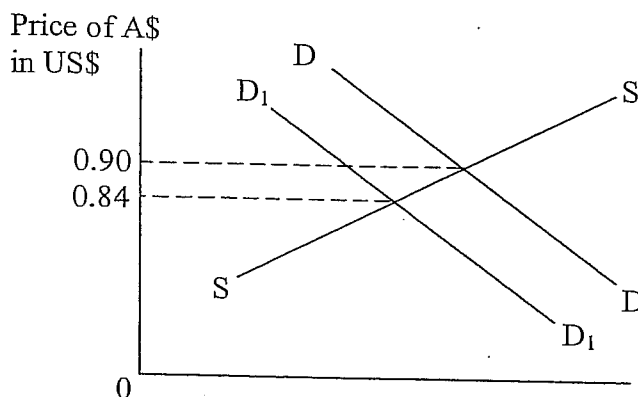
Which of the following could have caused the recent depreciation in value of the Australian dollar?

   (A)   An increase in Australian interest rates due to the threat of inflation

   (B)   An increase in Australian exports due to China's rapid growth

   (C)   A decrease in commodity imports as Australia's growth slows

   (D)   A decrease in foreign investment in Australia due to the European debt crisis

6   If $X = 50$, $M = 40$, $G = 50$, $T = 80$, $I = 10$ and $S = 5$, what will happen to the economy?

   (A)   The economy will expand because exports are greater than imports

   (B)   The economy will contract because of fiscal policy

   (C)   The economy will expand because of high consumer spending

   (D)   The economy will contract because imports are high

Section I continued:

7   What is one means of financing a budget deficit?

   (A)   Reducing the level of government outlays

   (B)   Increasing the level of personal income tax

   (C)   Increasing the level of infrastructure investment

   (D)   Borrowing from the public

8   What combination of macroeconomic policies could the Australian government use to reduce inflation?

   (A)   Raise cash rates and budget for a surplus

   (B)   Raise cash rates and budget for a deficit

   (C)   Lower cash rates and budget for a deficit

   (D)   Lower cash rates and budget for a surplus

9   The following table shows balance of payments data for an economy with a floating exchange rate.

Balance of goods and services	$10 billion
Net transfers	$2 billion
Net income	?
Capital account	$10 billion
Financial account	$15 billion

   What is the value of net income for this economy?

   (A)   -$20 billion

   (B)   -$37 billion

   (C) $12 billion

   (D) $30 billion

10   If an economy's Marginal Propensity to Consume is 0.8Y and there is an increase in autonomous investment of $200m, what is the ultimate increase in national income?

   (A) $1000m
   (B) $1600m
   (C) $40m
   (D) $160m

Section I continued:

11 Which of the following combinations of economic policies might lead to a change in the Gini co-efficient from 0.311 to 0.302?

(A) A decrease in unemployment benefits and a decrease in the marginal taxation rate for low income earners

(B) A decrease in unemployment benefits and an increase in the marginal taxation rate for low income earners

(C) An increase in unemployment benefits and an increase in the marginal taxation rate for low income earners

(D) An increase in unemployment benefits and a decrease in the marginal taxation rate for low income earners

12 What is the role of the International Monetary Fund (IMF)?

(A) To promote stability in the global financial system

(B) To provide development assistance to developing countries

(C) To encourage multilateral trade talks

(D) ˙ To reduce the level of fluctuation in global currencies

13 The following diagram shows the aggregate demand and aggregate supply curves for the Australian economy.
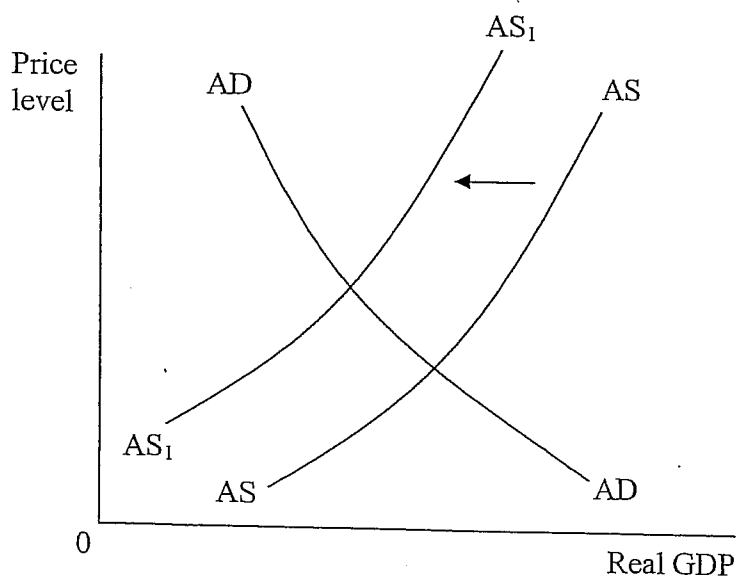
Which of the following changes in government economic policy could cause a shift of the aggregate supply curve from AS to AS_1?

(A) Income tax cuts for low income earners

(B) A decrease in the rate of GST from 10% to 7.5%

(C) A new Resource Super Profits Tax on the mining industry

(D) Higher official interest rates

Section I continued:

14 Which of the following factors could cause an increase in the size of the current account deficit?

(A) A decrease in capital inflow into Australia

(B) A decrease in the official cash rate in Australia

(C) An increase in the dividends paid to foreign investors

(D) An increase in the number of overseas students studying in Australia

15 Which of the following would be a consequence of an increase in real Gross Domestic Product?

(A) An increase in consumption and an increase in taxation revenue

(B) A decrease in consumption and an increase in government spending

(C) An increase in imports and a decrease in taxation revenue

(D) A decrease in exports and an increase in government spending

16 The following diagram shows the effect of a subsidy paid to domestic producers of wheat in a hypothetical economy.
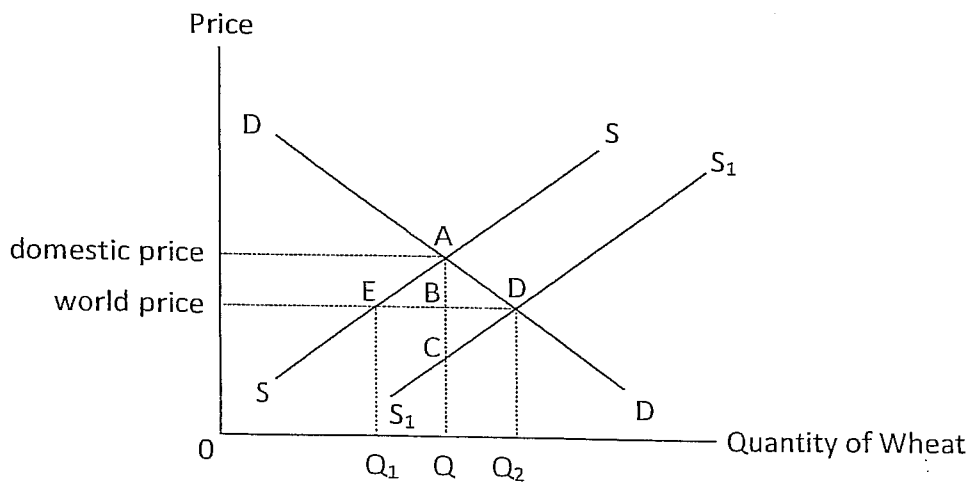
What is the size and impact of the subsidy on domestic wheat production?

(A) The subsidy is AB and supply falls from Q_2 to Q_1.

(B) The subsidy is AC and supply increases from Q_1 to Q_2.

(C) The subsidy is ED and supply increases from Q_1 to Q.

(D) The subsidy is BC and supply falls from Q to Q_1.

17   Qantas increases its market share in the world airline industry with a record profit.

How would this 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 credit on the Australian capital and financial account

(D)   As a debit on the Australian capital and financial account

18   The following table shows export and import price indexes for a hypothetical economy.

Year	Export Price Index	Import Price Index
1	105	110
2	110	120

What is the value of the terms of trade in Year 2 and its implication for the economy?

(A)   95.5, and the economy can buy more imports with a given volume of exports

(B)   95.5, and the economy can buy less imports with a given volume of exports

(C)   91.6, and the economy can buy less imports with a given volume of exports

(D)   91.6, and the economy can buy more imports with a given volume of exports

19   The table shows selected data for an economy.

	Year 1	Year 2
Cash rate	5.5%	7.0%
Budget outcome	+ $20 billion	+ $32 billion

Which policy objectives would the government be attempting to achieve in Year 2?

(A)   To reduce the rates of unemployment and inflation

(B)   To reduce the inflation rate and rate of economic growth

(C)   To reduce the inflation rate and increase the rate of economic growth

(D)   To reduce the rate of unemployment and increase the rate of economic growth

20   Which of the following could cause an increase in the rate of structural unemployment?

(A)   A deficiency in the level of aggregate demand

(B)   An increased rate of technological change in industry

(C)   A recession in the global economy

(D)   Increased dependency of the unemployed on welfare payments

End of Section I

Section II

40 marks

Attempt Questions 21 – 24

Allow about 1 hour 15 minutes for this section

Answer the questions in the spaces provided

Question 21 (10 marks)

The table shows selected data for a nation

Economic Indicators	YEAR 1	YEAR 2
Economic Growth	4%	1.3%
Unemployment	6%	10%
Inflation	3%	1%
Government Revenue	$2200m	$1950m
Government Expenditure	$1800m	$2500m

a) Identify TWO statistics which supports the projection that the economy is heading into recession

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b) Calculate the budget balance for year 2

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Student Number: ....

Question 21 continued:

c)   Account for the change in the budget balance between years 1 and years 2

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d)   Discuss one impact on individuals and one impact on government arising from the
      trends evident in the statistics.

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End of Question 21

Student Number: ....

Section II continued:

Question 22 (10 marks)

Marks

(a)   Distinguish between the terms *income* and *wealth*.

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(b)   The table shows Gini co-efficient data for Australia.

Year	Gini co-efficient (pre-tax)	Gini co-efficient (after tax)
1980	0.278	0.201
1985	0.302	0.207
1990	0.338	0.254
1995	0.359	0.283
2000	0.383	0.279

Adapted from Leigh, A. (2004), Australian National University, September

Using data from the table, identify TWO features of the trend in the distribution of income in Australia between 1980 and 2000.

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(c)   Describe TWO factors contributing to inequality in the distribution of income in Australia.

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Question 22 continued:

Marks

(d) Explain how TWO government policies have affected the distribution of income in Australia.

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End of Question 22
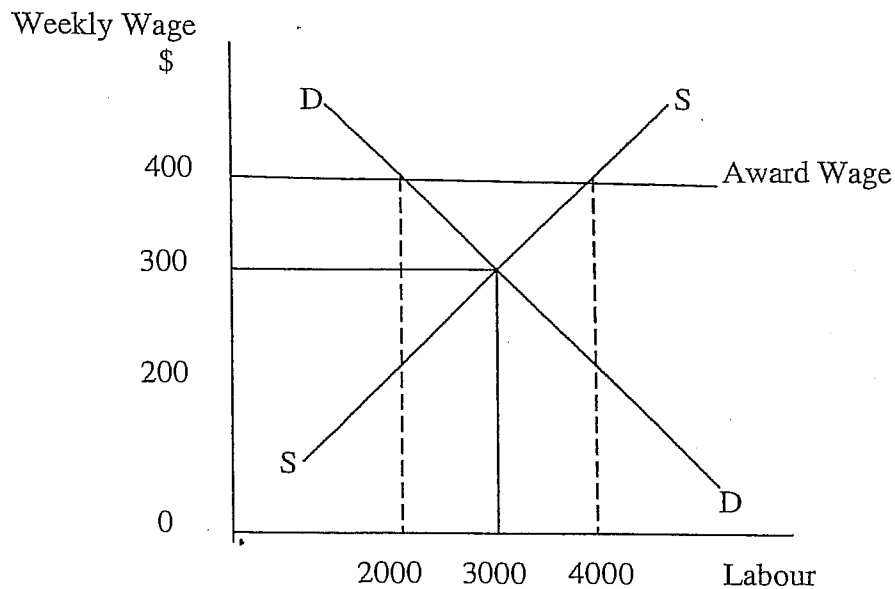
Student Number: ....

Section II continued:

Question 23 (10 marks)

The diagram show the wage rate for a hypothetical economy

a)   Calculate the number of unemployed at the award wage.   1

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b)   Account for the level of unemployed at the award wage   2

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Student Number: ....

Question 23 continued:

c)   Discuss ONE policy option which addresses the issue of unemployment in
       Australia.   3

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d)   Assess ONE effect on the Australian economy of enterprise based wage determination.   4

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End of Question 23

Student Number: ....

Section II continued:

Question 24 (10 marks)

The following economic statistics refer to three separate countries:

Country	Real GDP Year 1 ($000)	Real GDP Year 2 ($000)	Human Development Index	Gini Coefficient
Country A	200	210	0.9	0.30
Country B	300	310	0.3	0.40
Country C	400	400	0.1	0.60

(a) Calculate the real rate of economic growth in Country A in year 2.   1

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(b) Define the terms economic growth and economic development.   2

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(c) Explain why Quality of Life indicators are better measures of standards of living   3
    than just using statistics that show changes in economic growth.

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Student Number: ....

Question 24 continued:

(d)   Discuss ONE positive and ONE negative impact of economic growth   4
      on a developing country

End of Question 24

End of Section II

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

Answer the question in a writing booklet.

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, well structured answer to the question

Question 25 (20 marks)

Discuss the impact of the federal government's use of fiscal and monetary policy to maintain internal stability in the Australian economy during the global financial crisis.

In your answer, you should refer to the economic information provided.

Australia Economic Indicators

> Normally after a recession we enter a period of several years in which worries about inflation and worries about the supply side of the economy are forgotten and all the focus is on our painfully slow progress in starting to make inroads into unemployment. The point is, we look like we'll skip that recovery phase this time, soon getting back to worries about inflation, the supply side, productivity growth and skill shortages.
>
> Ross Gittins, *The Sydney Morning Herald*
> 22.03.10

Source: Australian Bureau of Statistics and the Reserve Bank of Australia.

Question 26 (20 marks)

Discuss the impact of the global recession on the Australian economy. In your answer, you should refer to the economic information provided.

The past two years have reinforced a lesson that no-one should have forgotten: what happens in the rest of the world matters a lot for the Australian economy. The global economy went through the worst financial crisis in more than 70 years, and Australia was dragged into its worst cyclical experience (and arguably its first recession) in 17 years as a direct result... 2009 was a disaster, with negative growth in all major developed economies, while the developing world continued to record growth, albeit at a reduced rate. Australia's trading partners in aggregate recorded a fall in GDP, for the first time ever.

Chris Caton, Chief Economist - June 2010

World GDP growth for major economies (%)
World GDP Growth
Year-average, per cent

	2008	2009 Estimate	2010 IMF forecasts	2011
United States	0.4	−2.4	2.7	2.4
Euro area	0.7	−3.9	1.0	1.6
Japan	−1.2	−5.2	1.7	2.2
China	9.6	8.7	10.0	9.7
Other east Asia	2.7	−0.3	4.8	5.0
India	7.5	6.9	7.7	7.8
World	**3.0**	**−0.8**	**3.9**	**4.3**
Australia's trading partners	2.7	−0.3	4.4	4.6

One reason that we have moved back from the edge is the policy responses of governments and central banks. These responses provided the public with the assurance that policy makers would not stand idly by. Collectively, they were sufficient to interrupt the corrosive cycle of falling confidence undermining spending, then feeding through to even lower confidence and even lower spending.

Philip Lowe
Assistant Governor (Economic)   Sydney - 18 February 2010

End of Section III

Section IV

20 marks

Attempt either Question 27 OR Question 28

Allow about 35 minutes for this section

Answer the question in a writing booklet provided

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

Question 27 (20 marks)

Analyse the causes of Australia's persistent Current Account Deficits and their implications for the Australian economy.

OR

Question 28 (20 marks)

Analyse the causes of an appreciation of the Australian dollar, and the impacts on the Australian economy of a sustained appreciation of the Australian currency.

End of paper

Student Number/Name: ....

North Sydney Girls High School

TRIAL HSC ECONOMICS EXAMINATION

Section I Answer Sheet

Multiple Choice
20 marks
Attempt Questions 1 – 20
Allow about 35 minutes for this section
Select the alternative A, B, C or D that best answers the question. Fill in the response circle completely.

1	○ A	○ B	○ C	○ D
2	○ A	○ B	○ C	○ D
3	○ A	○ B	○ C	○ D
4	○ A	○ B	○ C	○ D
5	○ A	○ B	○ C	○ D
6	○ A	○ B	○ C	○ D
7	○ A	○ B	○ C	○ D
8	○ A	○ B	○ C	○ D
9	○ A	○ B	○ C	○ D
10	○ A	○ B	○ C	○ D
11	○ A	○ B	○ C	○ D
12	○ A	○ B	○ C	○ D
13	○ A	○ B	○ C	○ D
14	○ A	○ B	○ C	○ D
15	○ A	○ B	○ C	○ D
16	○ A	○ B	○ C	○ D
17	○ A	○ B	○ C	○ D
18	○ A	○ B	○ C	○ D
19	○ A	○ B	○ C	○ D
20	○ A	○ B	○ C	○ D