



**2001**  
**TRIAL HIGHER SCHOOL CERTIFICATE**

## Economics

### General Instructions

- Reading time – 5 minutes
- Working time – 3 hours
- Write using blue or black pen
- Board-approved calculators may be used
- Write your Student Number at the top of each answer page

### Section I

Pages 2-9

Total marks (20)

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

### Section II

Pages 10- 18

Total marks (40)

- Attempt Questions 21 – 24
- Allow about 1 hours and 15 minutes for this section

### Section III

Pages 19 - 20

Total marks (20)

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

### Section IV

Page 21

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

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. Fill in the response circle completely.


Sample  $2 + 4 =$  (A) 2 (B) 6 (C) 8 (D) 9

A  B  C  D

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

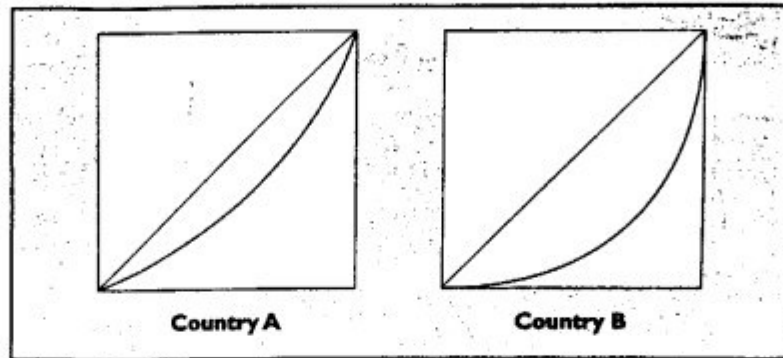
A  B  C  D

If you change your mind and have crossed out what you consider to be the correct answer, then indicate this by writing the word correct and drawing an arrow as follows:

A  B  C  D   
*correct* 

1. What is the likely effect of a sustained program of tariff reductions by the government over a period of 5 years?
  - (A) structural unemployment
  - (B) cyclical unemployment
  - (C) seasonal unemployment
  - (D) hard-core unemployment
  
2. Which of the following will occur when there is large scale selling of Commonwealth Government securities by the Reserve Bank to authorized money market dealers?
  - (A) reduce 'cash' in the market and raise short term interest rates
  - (B) reduce 'cash' in the market and lower short term interest rates
  - (C) increase 'cash' in the market and lower short term interest rates
  - (C) increase 'cash' in the market and raise short term interest rates
  
3. Which of the following is an example of Fiscal Policy?
  - (A) all government policies designed to promote full employment
  - (B) government policies aimed at influencing the demand for and supply of money
  - (C) the use of government revenue and expenditure to regulate aggregate demand in the economy
  - (D) the use of government powers to manage the exchange rate
  
4. Which of the following will cause the Australian Labour force to increase?
  - (A) school retention rates increasing
  - (B) the labour force participation rate increasing
  - (C) the number of officially unemployed people declining
  - (D) those structurally unemployed are retrained
  
5. If there was an injection of \$5 million into their Australian economy, given an MPC of 0.9, what would be the increase in national income?
  - (A) \$4.5 million
  - (B) \$5 million
  - (C) \$45 million
  - (D) \$50 million

6. The diagrams below show the line of absolute equality, and the Lorenz Curve for two countries.



What is evident from the diagrams?

- (A) the Gini co-efficient would be higher in Country A than Country B
- (B) income is more unevenly distributed in Country A than Country B
- (C) Country A is more likely to be a developed country, and Country B is more likely to be a developing country
- (D) it is more likely that Country A would be receiving aid from Country B

Question 7 relates to the following data. It shows the exchange rates for the Australian dollar against the US Dollar and the Japanese Yen.

	22 December	24 December
US Dollar	1 = 0.54	1 = 0.57
Japanese Yen	1 = 65	1 = 62

Which of the statements applies to December 24?

- (A) the Australian dollar has appreciated against the Yen
- (B) Australian exporters to Japan will face lower demand for their goods
- (C) Australian tourists to the US will be able to purchase more \$US with their Australian currency
- (D) Japanese products will be cheaper for Australians to buy

8. What does Gross World Product measure?
- (A) the change in the volume of world trade
  - (B) the quality of life of the people in the world
  - (C) the value of the world's wealth
  - (D) the value of final goods and services produced in the world

9. Question 9 is based on the following information

	(\$MILLION)
Balance on Merchandise Trade	250
Net Services	-3000
Net Income and Transfers	-8500
Capital Transactions	500
Financial Transactions	10750

What is the balance of payments on current account for this nation?

- (A) \$11,250 million debit
  - (B) \$11,250 million credit
  - (C) \$11,750 million credit
  - (D) \$11,750 million debit
10. Which of the following statements is appropriate if  $S + T + M$  is less than  $I + G + X$ , in the short run?
- (A) the Federal Budget is in surplus
  - (B) unemployment will result
  - (C) stocks will decrease
  - (D) the economy will contract

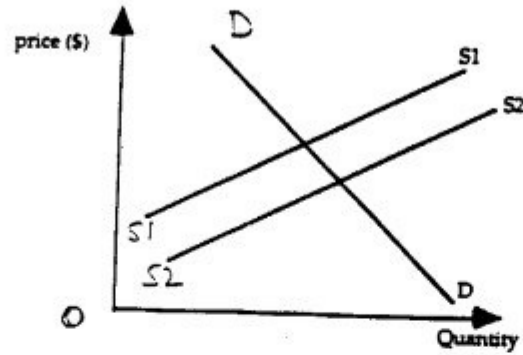
Questions 11 and 12 are based on the following Table.

YEAR	GDP at CURRENT PRICES (\$ billion)	PRICE INDEX NUMBER (Base Year = Year 1)
1	400	100
2	550	110
3	630	121

11. What is the Real GDP for Year 2 for this nation?
  - (A) \$400 billion
  - (B) \$500 billion
  - (C) \$550 billion
  - (D) \$605 billion
  
12. What is the rate of inflation in Year 3?
  - (A) 10%
  - (B) 11%
  - (C) 21%
  - (D) 121%
  
13. Which one of the following most likely indicates a trend towards greater globalisation?
  - (A) increases in the growth rates of developing economies
  - (B) increases in the trade barriers between countries
  - (C) increases in the volatility of country's exchange rates
  - (D) increases in the value of global trade as a proportion of total output
  
14. Which of the following decreases the level of protection in Australia?
  - (A) increase in the size of existing quotas for imports
  - (B) decrease in the size of existing quotas for imports
  - (C) increased tariffs
  - (D) increased subsidies for local industries
  
15. Which one of the following statements about externalities is correct?
  - (A) externalities arise as a result of free riders
  - (B) externalities are solved by the operation of the price mechanism
  - (C) externalities give rise to non excludable, non rival public goods
  - (D) externalities are caused by market failure

16. Which of the following are features of most developing countries?
- (A) low levels of foreign debt, low levels of capital accumulation, high per capita income
  - (B) high levels of capital accumulation, high levels of foreign debt, low per capita income
  - (C) low levels of domestic savings, low levels of capital accumulation, high levels of foreign debt
  - (D) low per capita income, low levels of domestic savings, low levels of foreign debt
17. What is the main purpose of the World Trade Organisation (WTO)?
- (A) to measure the quality of life in individual countries
  - (B) to stabilise balance of payment problems in nations
  - (C) to provide loans to developing nations
  - (D) to promote free trade in the global economy
18. What could be the effect of a rise in real interest rates in Australia in the short term? (ceteris paribus)
- (A) increased levels of overseas investment in Australia resulting in an appreciation of the Australian dollar
  - (B) increased levels of overseas investment in Australia resulting in a depreciation of the Australian dollar
  - (C) decreased levels of overseas investment in Australia resulting in an appreciation of the Australian dollar
  - (D) have no effect on the levels of overseas investment in Australia or the exchange rate
19. Which of the following would occur if Australia's inflation rate fell below our trading partners?
- (A) our trade balance would probably improve and the \$A would depreciate
  - (B) our trade balance would probably deteriorate and the \$A would appreciate
  - (C) our trade balance would probably improve and the \$A would appreciate
  - (D) our trade balance would probably deteriorate and the \$A would depreciate

20. The following diagram represents the market for a good



If the government were to cease payment of an \$18 subsidy to manufacturers, *ceteris paribus*, the new price of the good would be

- (A) unchanged
- (B) at least \$18 higher than before
- (C) exactly \$18 higher
- (D) less than \$18 higher than before



**Student number\_**

**Section II**

**Total marks (40)**

**Attempt Questions 21-24**

**Allow about 1 hour and 15 minutes for this section**

Answer the question in the spaces provided

---

**Question 21(10 marks)**

**Marks**

(a) Define the term globalization.

2

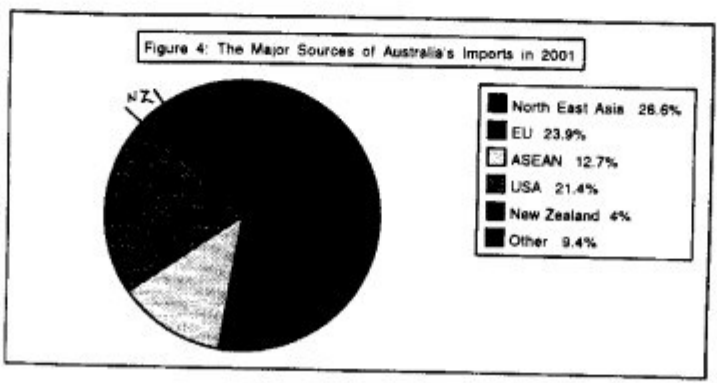
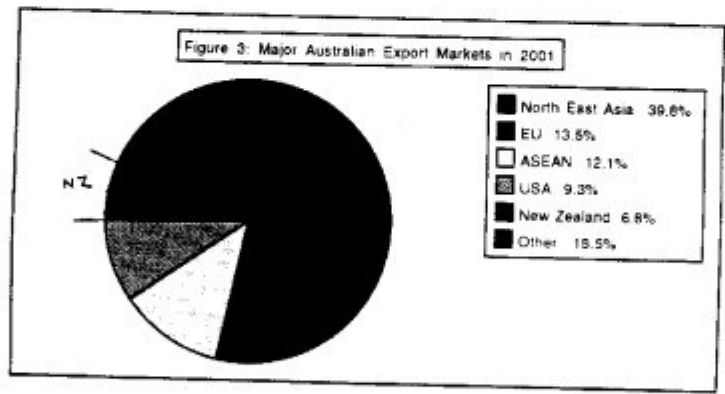
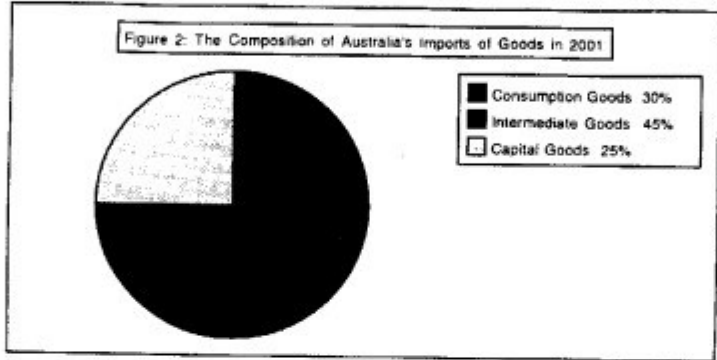
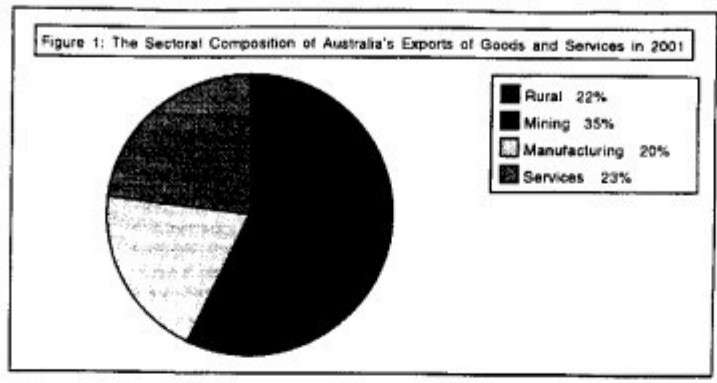
Refer to the pie charts on p 12 to answer questions (b) below

(b) Explain the direction and composition of Australia's trade in 2001

4

- (c) **Assess the impact of one international organization on the global economy.**

**4**



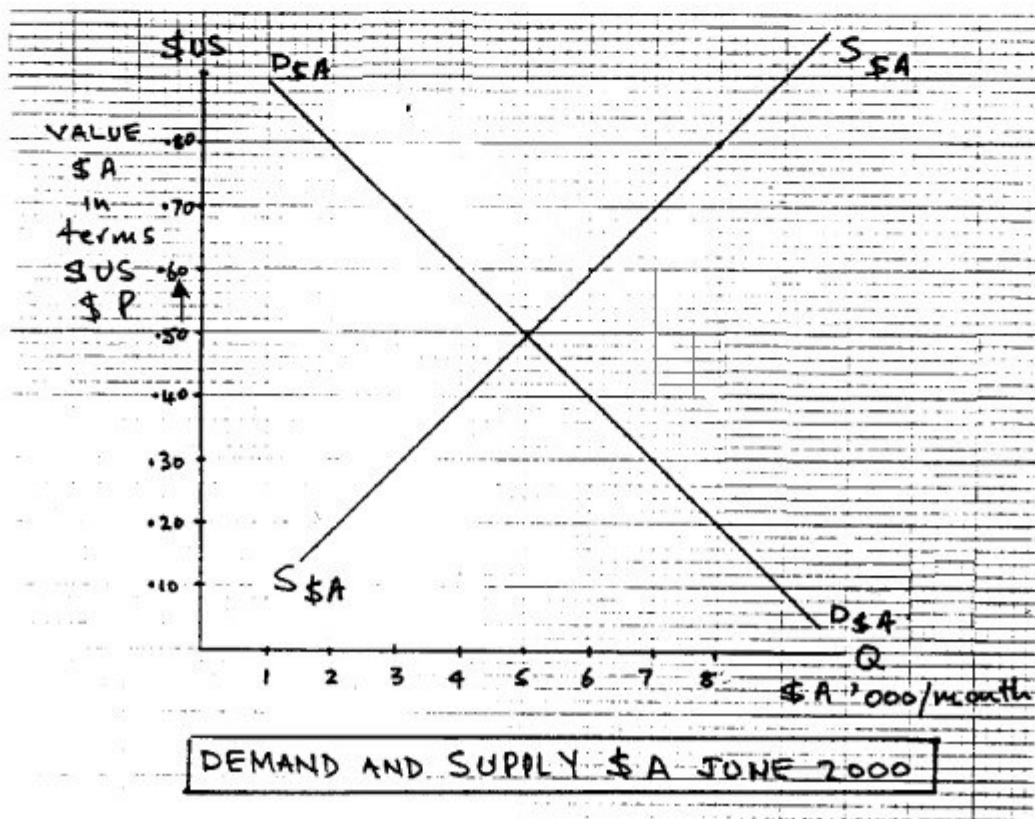
Question 22 (10 marks)

Marks

(a) Outline how Australia's exchange rate is determined. 2

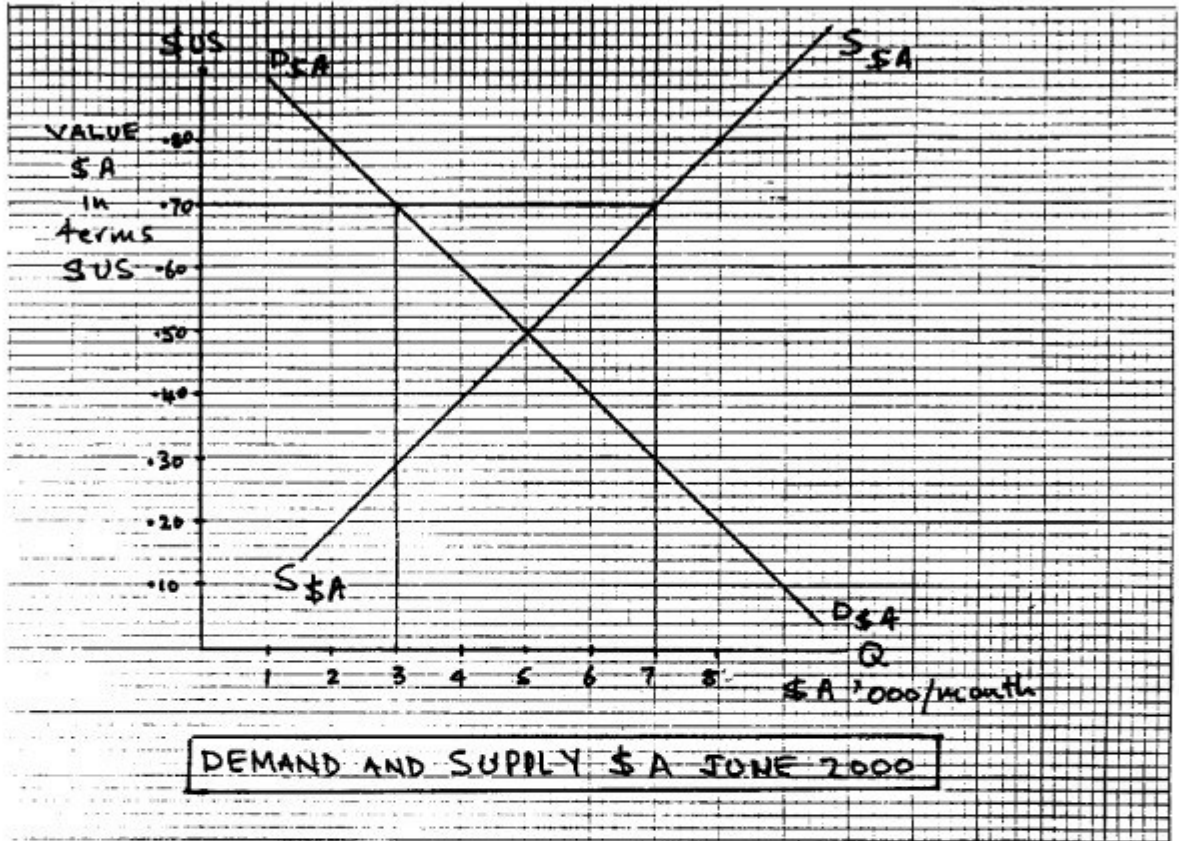
(b) Explain the effect of an increase in the demand for Australia's exports on the value of the \$A 2

(c) Demonstrate the effect explained in (b) above on the diagram below 2



- (d) Using the diagram below explain the outcome if the exchange rate were fixed at \$0.70 US

4



**Question 23 (10 marks)**

**Marks**

**Economic Indicators for Economy X**

	Labourforce Persons	Unemployed Persons	Unemployment Rate %	Real GDP % change	Inflation %
1992-93	8,574,400	940,400	11.0	3.7	1.0
1993-94	8,696,000	915,500	10.5	4.1	1.8
1994-95	8,886,300	793,700			
1995-96	9,065,500	764,300	8.4	4.5	4.2
1996-97	9,173,100	792,400	8.6	3.8	1.3
1997-98	9,260,600	764,200	8.3	4.8	0.1
1998-99	9,399,000	718,200	7.6	4.8	1.2
1999-00	9,577,900	661,400	6.9	4.3	2.4

(a) Calculate the rate of unemployment in 1994 -95. (record your formula and show your calculation) 2

(b) Describe the relationship between the rate of unemployment and the changes in the real GDP between 1992 - 93 and 1996 - 97. 2

(c) Outline one advantage and one disadvantage of a sustained period of low inflation on an economy. 2

(d) Assess the economic and social problems created by high levels of unemployment. 4

**Question 24 (10 marks)**

- (a) Explain the term Gini coefficient 2

Using the table below answer question (b)

**Average Hourly Earnings Australia  
1994**

ABS Cat 6302

Industry	Males (\$ per hour)	Females (\$ per hour)	Industry juniors (\$per hour)
Mining	27.18	19.91	14.76
Manufacturing	16.51	13.67	7.64
Construction	16.96	12.52	8.38
Retail Trade	13.18	12.23	7.34
Finance and Business	19.1	14.88	8.28
Personal and Other	14.74	13.42	6.59
Average	17.22	15.04	7.61

- (b) Using the above table account for the variation of income according to gender and age 4



- (c) Examine 2 costs and 2 benefits of Australia's current distribution of income. 4

Cost 1

Cost 2

Benefit 1

Benefit 2

**Section III**

**Total marks (20)**

**Attempt either Question 25 or Question 26**

**Allow about 35 minutes for this section**

Answer the question on a separate page

---

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

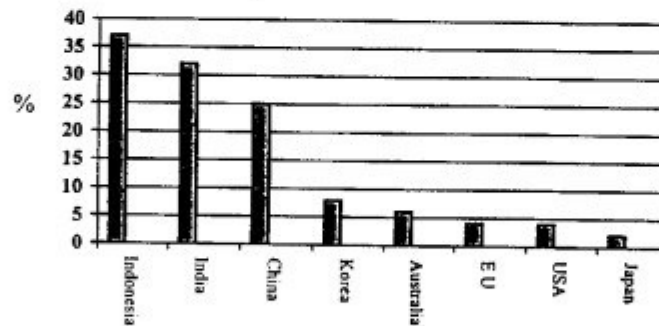
- use your knowledge and the economic information provided
  - apply economic terms, concepts, relationships and theory
  - present a sustained, logical and well-structured answer to the question
- 

**EITHER**

**Question 25 (20 marks)**

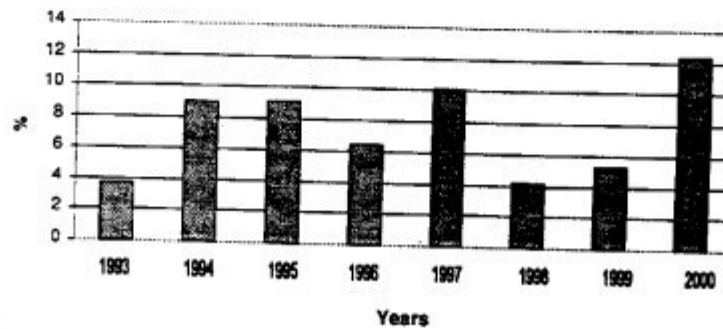
Discuss the effects of protectionist policies on the global economy.

**The level of protection in manufacturing industries  
in various countries**



**Graph 2. World Trade in Goods and Services**

**Annual Percentage Growth in Trade Volumes**

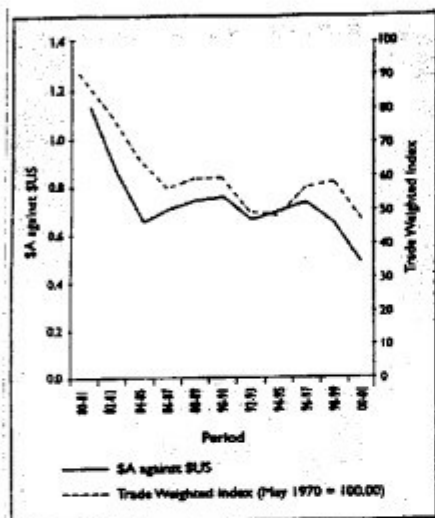


Source: IMF, *World Economic Outlook*, 2001.

OR

**Question 26 (20 marks)**

Analyse the impact of movements in the exchange rate on the Australian economy and the Balance of Payment.



Value of SA against \$US and Trade Weighted Index

-Leading Edge, Economics  
Update Feb. 2001

-Leading Edge, Economics  
Update March 2001

**Exchange rate**

"The fundamentals of the Australian economy don't warrant a dollar as low as it is at the present time... [But] you have got to remember that an exchange rate decline is actually expansionary for the economy."

- Treasurer Peter Costello 15 March 2001

**Key Australian Indicators**

	Latest	Date	12 mths ago
Economic growth	2.1%	Dec 00	5.4%
Inflation (CPI)	6.0%	Mar 01	2.8%
Unemployment	6.8%	Mar 01	6.8%
Ave. weekly earnings	4.9%	Nov 00	3.0%
Participation rate	63.5%	Mar 01	63.6%
Wage cost index	+3.4%	Dec 00	+3.0%
Household savings	2.6%	Dec 00	2.0%
RBA cash rate	5.5%	Mar 01	5.75%

**External accounts**

Current account	-\$33.9bn	1999-00	-\$33.7bn
Exports	\$142.0bn	2000	\$113.7bn
Export growth	+21.9%	2000	-0.1%
Imports	\$149.8bn	2000	\$130.2bn
Imports growth	+13.9%	2000	+4.3%
Net foreign debt	\$300bn	Dec 00	\$243bn
Foreign debt (%GDP)	46.6%	Dec 00	39.7%
Terms of trade	+4.9%	Dec 00	+5.0%
Trade Weighted Index	47.4	Mar 00	53.1

**Changing Trade Patterns: Australian Exports**

Destination	1990	2000
US/EU	25%	21%
Japan	26%	20%
ASEAN	11%	14%
Other East Asia	15%	22%
Rest of World	22%	22%

\* Forecast from RBA 2001

Sources: ABS Catalogues 1150.0, 5206.0, 1301.0, 5625.0, 6202.0, 6301.0  
0401.0, Reserve Bank Bulletin

**Section IV**

**Total marks (20)**

**Attempt either Question 27 or Question 28**

**Allow about 35 minutes for this section**

Answer the question on a new page

---

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
- 

**Question 27 (20 marks)**

Analyse the impact of globalisation on the level of economic growth and the standard of living in the global economy.

**OR**

**Question 28 (20 marks)**

Examine the impact of changes in the global economy on Australia's economic performance.