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Student Number



Ravenswood

2014
Higher School Certificate Trial
Examination

Economics

General Instructions

- Reading time – 5 minutes
- Working time – 3 hours
- Write using black or blue pen
Black pen is preferred
- Draw diagrams using pencil
- Board-approved calculators may be used

Total marks – 100

Section I Pages 2-9

20 marks

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

Section II Pages 10-20

40 marks

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

Section III Pages 21-22

20 marks

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

Section IV Page 23

20 marks

- Attempt Question 27
- Allow about 35 minutes for this section

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 Which of the following would be associated with an increase in consumer confidence in an economy?
- (A) An increase in interest rates
 - (B) An increase in income tax rates
 - (C) An increase in unemployment rates
 - (D) An increase in the labour force participation rate
- 2 Which of the following will likely increase economic growth in the long-term?
- (A) Reducing interest rates
 - (B) Extra spending on infrastructure projects
 - (C) Increasing the centralisation of wage determination
 - (D) Increasing the marginal rates of taxation

3 The table shows selected data for an economy.

<i>Year</i>	<i>Unemployment Rate</i>	<i>Consumer Price Index</i>	<i>Foreign Debt as a % of GDP</i>
1	5.5%	125	38.2%
2	5.3%	129	45.5%
3	4.9%	137	52.2%

Given the changes in the data from Year 1 to Year 3, what can be concluded about the changes in this economy?

- (A) Economic growth has been positive and external stability has deteriorated
 - (B) Inflation has increased and external stability has improved
 - (C) External stability has deteriorated and economic growth has been negative
 - (D) Economic growth has been positive and inflation has fallen
- 4 An increase in investment results in an expansion of \$1600m in the national income of an economy. The marginal propensity to consume in this economy is 0.75.

What was the amount of increased investment?

- (A) \$400m
- (B) \$800m
- (C) \$1200m
- (D) \$1600m

5 The table shows selected data for an economy.

<i>Year</i>	<i>Unemployment Rate</i>	<i>Inflation Rate</i>
1	5.5%	2.3%
2	5.7%	1.7%
3	5.9%	1.0%

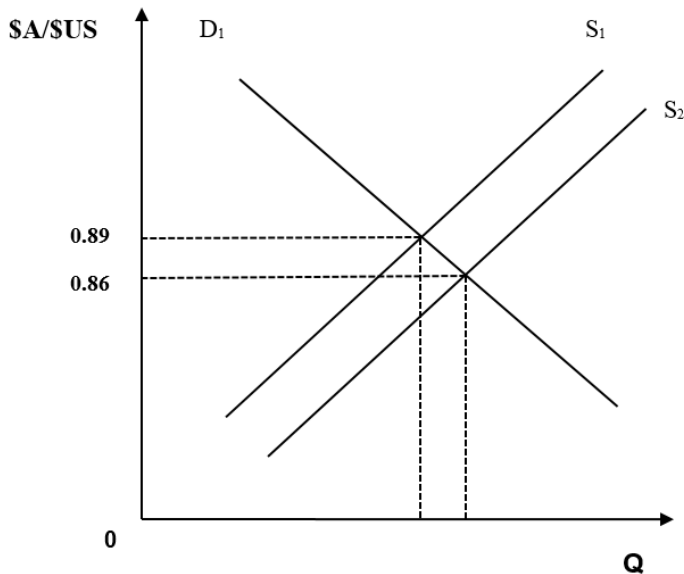
Based on the information in the table, which of the following would be the most appropriate monetary policy response if the economy was Australia?

	<i>Reserve Bank of Australia Policy Stance</i>	<i>Reserve Bank of Australia Domestic Market Operations in Short-Term Money Market</i>
(A)	Contractionary	Buy 2 nd -hand Commonwealth Government Securities
(B)	Expansionary	Sell 2 nd -hand Commonwealth Government Securities
(C)	Expansionary	Buy 2 nd -hand Commonwealth Government Securities
(D)	Contractionary	Sell 2 nd -hand Commonwealth Government Securities

6 Which of the following would worsen the Primary Income component of Australia's Balance of Payments?

- (A) A fall in global interest rates compared to Australia
- (B) A reduction in the profitability of Australian companies
- (C) A deterioration in Australia's terms of trade
- (D) An increase in migrant remittances from Australia to the rest of the world

7 The graph shows the demand and supply of Australian dollars.



Which of the following is the most likely reason for the shift in the supply curve from S₁ to S₂?

- (A) An increase in the level of Australian interest rates relative to interest rates in foreign economies
 - (B) An increase in Australian commodity exports
 - (C) An increase in the level of dividends paid by Australian firms to overseas shareholders
 - (D) A decrease in imports of capital goods into Australia
- 8 What would be the most likely impact of an increase in aggregate supply in an economy?
- (A) An increase in inflation and a decrease in unemployment
 - (B) An increase in economic output and a decrease in the general price level
 - (C) An increase in demand for imports and a decrease in export revenue
 - (D) An increase in economic growth and an increase in government spending

- 9 The following table shows selected data for a hypothetical economy.

Component	\$ billion (\$bn)
Investment	30
Government spending	30
Saving	20
Exports	25
Taxation	20
Imports	30

- Which of the following statements is true for this economy?**
- (A) Leakages exceeds injections
 - (B) Injections exceeds leakages
 - (C) The economy is experiencing a recession
 - (D) The economy is in equilibrium
- 10 What is an appropriate government policy response to the simultaneous rise of both cyclical unemployment and cost-push inflation?
- (A) Lower interest rates and higher levels of company taxation
 - (B) Higher interest rates and increased spending on education
 - (C) Lower levels of taxation and further deregulation of labour markets
 - (D) Higher government spending and increases in the company tax rate
- 11 What combination of changes in government revenue and expenditure policies would reduce a budget deficit most effectively?
- (A) A decrease in progressive income tax rates and a decrease in welfare benefits
 - (B) A decrease in progressive income tax rates and an increase in welfare benefits
 - (C) An increase in progressive income tax rates and a decrease in welfare benefits
 - (D) An increase in progressive income tax rates and an increase in welfare benefits

- 12 Which part of a federal budget is most directly impacted by automatic stabilisers?
- (A) External component
 - (B) Cyclical component
 - (C) Structural component
 - (D) Discretionary component
- 13 Which of the following is the most likely cause of a deterioration in Australia's terms of trade?
- (A) A fall in the price of imported capital goods into Australia
 - (B) An appreciation of the Australian dollar
 - (C) A reduction in the volume of Australia's commodity exports
 - (D) A decrease in the price of Australia's educational exports
- 14 Which of the following describes the non-rivalrous nature of public goods?
- (A) The benefits derived from the consumption of a good cannot be restricted to only those who pay for the good
 - (B) The social benefits of the consumption of a good outweigh the private benefits
 - (C) No more than one person can use the good at any one time
 - (D) The enjoyment of a good by one person does not impinge upon the enjoyment of the good by another person
- 15 Which of the following is a possible cause of demand-pull inflation?
- (A) The anticipation of lower prices in the near-future
 - (B) An increase in the price of oil
 - (C) A decrease in domestic interest rates
 - (D) The depreciation of the Australian dollar

- 16 Which of the following is a cost to an economy of floating its exchange rate system?
- (A) Less effective and independent monetary policy
 - (B) An imbalance between the demand and supply of local dollars
 - (C) Greater currency volatility in the short-run
 - (D) The inability of the economy to adjust to external price shocks
- 17 Which of the following best describes the current trend in Australia's financial flows?
- (A) Portfolio investment inflows exceed direct investment inflows
 - (B) Direct investment outflows exceed direct investment inflows
 - (C) Direct investment inflows exceed portfolio investment inflows
 - (D) Portfolio investment outflows exceed portfolio investment inflows
- 18 Which of the following is a potential advantage of an economy increasing foreign investment?
- (A) An improvement in the current account deficit
 - (B) A worsening of the current account deficit
 - (C) An improvement in long-run economic growth
 - (D) A decrease in Australia's net foreign liabilities

19 The table shows selected data for Country X.

Gross Foreign Liabilities of Country X = \$4600bn	Gross Foreign Assets of Country X = \$1950bn
Gross Foreign Debt of Country X = \$2900bn	Gross Foreign Debt owed to Country X = \$1400bn

What is the level of net foreign equity for Country X?

- (A) - \$1150bn
 - (B) - \$2250bn
 - (C) - \$5050bn
 - (D) - \$10,850bn
- 20 The following table shows annual Consumer Price Index (CPI) and underlying inflation data for an economy.

Year	CPI % Change	Underlying inflation % Change
1	3.0	2.5
2	2.8	2.3

What is the trend in the CPI and underlying measures of inflation between Year 1 and Year 4?

- | | | |
|-----|---|---------------------------------------|
| (A) | Underlying inflation is less than CPI inflation | CPI inflation excludes volatile items |
| (B) | Underlying inflation is less than CPI inflation | CPI inflation includes volatile items |
| (C) | Underlying inflation is more than CPI inflation | CPI inflation includes volatile items |
| (D) | Underlying inflation is more than CPI inflation | CPI inflation includes excludes items |

Economics

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. These spaces provide guidance for the expected length of response.

Extra writing space is provided on pages 19 and 20. If you use this space, clearly indicate which question you are answering.

Please turn over

Question 21 (10 marks)

(a) Explain how economic growth is measured in Australia.

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(b) Explain ONE example of how an environmental issue impacts on Australia's long-term economic growth.

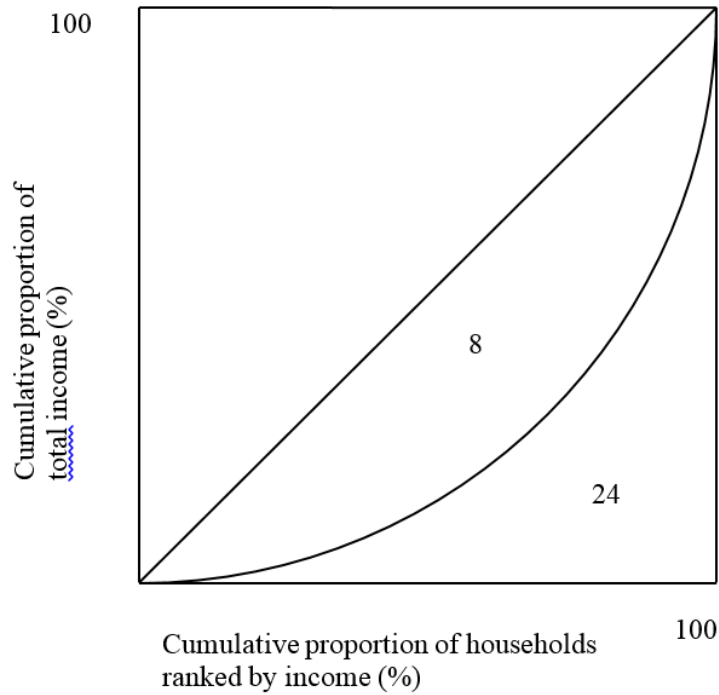
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Question 21 continues on the next page

Question 21 (continued)

(a) The diagram shows the Lorenz curve for an economy.



Calculate the Gini Coefficient for this economy.

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(b) The Gini Coefficient for this economy has fallen in recent years.

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Identify TWO factors that may have contributed to the change in the income distribution of this economy.

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Question 22 continues on the next page

Question 22 (continued)

- (c) Why is the post-tax Gini Coefficient a better indicator of income distribution in Australia than the pre-tax Gini Coefficient? 3

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- (d) Explain the effects of a higher level of economic growth on the distribution of income. 4

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End of Question 22

Question 23 (10 marks)

(a) The table shows labour data for an economy.

<i>Year</i>	<i>Total population (millions)</i>	<i>Working age population (millions)</i>	<i>Employed persons (millions)</i>	<i>Unemployed persons (millions)</i>
1	35	25	15	5
2	40	30	18	7

Calculate the unemployment rate for this economy in Year 1. 1

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(b) Outline an economic cost of unemployment. 2

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(c) Account for the change in the labour force participation rate in this economy between Year 1 and Year 2. 2

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Question 23 continues on the next page

- (d) Explain the potential economic consequences of an increase in the government payment to unemployed persons. 5

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End of Question 23

Question 24 (10 marks)

(a) The table shows information relating to the annual budgets for an economy.

<i>Year</i>	<i>Government Expenditure</i>	<i>Government Revenue</i>
1	\$125bn	\$132bn
2	\$132bn	\$136bn

Determine the fiscal stance for Year 2.

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(b) Distinguish between discretionary and non-discretionary spending in the Budget.

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(c) Explain the potential impact on the Budget outcome of reducing marginal income tax rates.

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Question 24 continues on the next page

Question 24 (continued)

(d) Discuss the effects of ONE method of financing a budget deficit.

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End of Question 24

Economics

Section III

20 marks

Attempt either Question 25 or Question 26

Allow about 35 minutes for this section

Answer the question in the Section III Writing Booklet. Extra writing booklets are available.

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

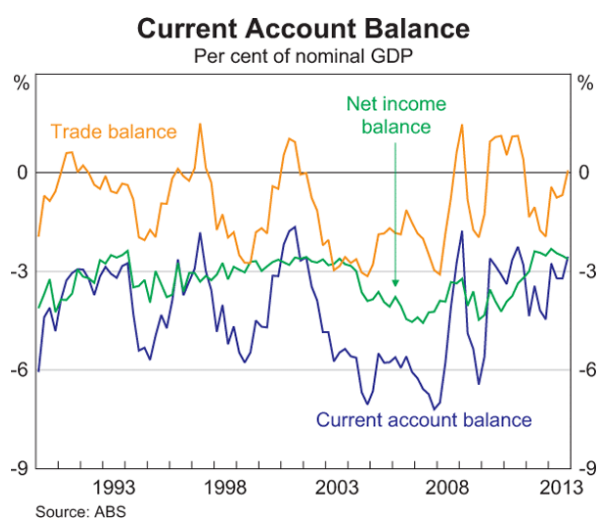
- demonstrate knowledge and understanding relevant to the question
- use the information provided
- apply relevant economic terms, concepts, relationships and theory
- present a sustained, logical and cohesive response

Question 25 (20 marks)

Examine the effects of changes in trade and financial flows on Australia's economic performance. In your response, you should refer to the economic information provided.

“The past decade saw the Australian dollar appreciate by around 50 per cent in trade-weighted terms (Graph 1).[1] The appreciation was an important means by which the economy was able to adjust to the historic increase in commodity prices and the unprecedented investment boom in the resources sector.” -

Source: Christopher Kent, Assistant Governor (Economic) RBA, 2014



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)

Analyse the effects of changes in the Australian labour market on the Australian economy. In your response refer to the economic information provided below.

“The most widely discussed link between national prosperity and regulatory arrangements in the labour market is through productivity.”

Source: Towards More Productive and Equitable Workplaces: An Evaluation of the Fair Work Legislation”, 2012, p. 55.

Non-Managerial Employees by Employment Contract (%)

All non-managerial employees (%)	2006	2008	2010	2012
Award	21.0	18.1	16.4	17.8
Collective Agreement (Federally Registered)	28.5	29.0	33.1	34.3
Collective Agreement (State Registered)	12.8	13.2	12.4	10.6*
Collective Agreement (Unregistered)	3.2	0.7	0.0	
Individual Agreement (Registered and unregistered)	34.5	39.1	38.0	37.3

Source: ABS, Employee Earnings and Hours, Cat. No. 6306.0, May 2006, August 2008, May 2010 and May 2012, unpublished data.

Economics

Section IV

20 marks

Attempt Question 27

Allow about 35 minutes for this section

Answer the question in the Section IV Writing Booklet. Extra writing booklets are available.

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)

Evaluate the effectiveness of strategies used to achieve economic growth and development in an economy other than Australia

End of paper