

**St Ignatius College  
Riverview**



**ECONOMICS**  
**Year 12 Trial Examination**  
**2005**

**General Instructions**

- Reading time - 5 minutes
- Working time - 3 hours
- Board approved calculators may be used
- Write using blue or black pens
- Write your name and your teacher's name in the spaces provided

**Section I ( 20 marks )**

Attempt questions 1-20  
Allow about 30 mins for this section

**Section II ( 40 marks )**

Attempt questions 21-24  
Allow about 70 mins for this section

**Section III ( 20 marks )**

Attempt question 25 or 26  
Allow about 40 mins for this section

**Section IV ( 20 marks )**

Attempt question 27 or 28  
Allow about 40 mins for this section

## Section A

20 marks

Attempt Questions 1-20

Allow about 30 minutes for this section

Answer the questions on the separate sheet provided

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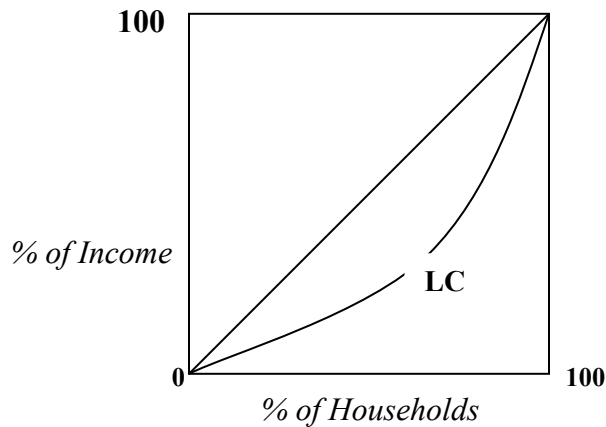
1. Which of the following most likely indicates an expansionary fiscal policy?

- (A) An increase in tax rates.
- (B) An increase in government expenditure.
- (C) An increase in the budget deficit.
- (D) An increase in the budget surplus.

2. Which of the following is recognised as the bilateral trade agreement between Australia and the USA?

- (A) NAFTA
- (B) ASEAN
- (C) CERTA
- (D) FTA

3. The diagram shows the Lorenz curve (LC) for a nation.



What is the value of the Gini coefficient shown by the Lorenz curve?

- (A) 0
- (B) 1
- (C) Greater than 1
- (D) Greater than 0 but less than 1

4. What is a probable consequence of the RBA cutting interest rates to stimulate domestic demand in Australia?

- (A) The Australian dollar will tend to depreciate.
- (B) There will be a decrease in investment spending.
- (C) The budget surplus will decrease.
- (D) There will be an inflow of foreign capital.

5. A net increase in investment of \$2000m changes the equilibrium level of national income by \$5000m. What is the size of the MPC?

- (A) 0.4
- (B) 0.6
- (C) 1.25
- (D) 2.50

6. From the information in the table, what is the labour force participation rate?

Employed persons (Full-time)	9 million
Employed persons (Part-time)	3 million
Unemployed persons	4 million
Hidden unemployed	1 million
Population aged 15 and over	25 million

- (A) 25%
- (B) 52%
- (C) 64%
- (D) 68%

7. Which macroeconomic policy mix would most likely contract the economy in the short term?

- (A) An increase in interest rates and an increase in government expenditure.
- (B) An increase in interest rates and a decrease in government expenditure.
- (C) A decrease in interest rates and a decrease in government expenditure.
- (D) A decrease in interest rates and an increase in government expenditure.

8. The following information refers to *Ratialusa*'s terms of trade.

<i>Year</i>	<i>Import Price Index</i>	<i>Export Price Index</i>
2004	115	105
2005	110	120

What is the most likely effect of the change in *Ratialusa*'s terms of trade from 2004 to 2005?

- (A) *Ratialusa* can purchase more imports with a given volume of exports.
- (B) *Ratialusa* will use up its reserves of foreign currency.
- (C) *Ratialusa* current account will move into surplus.
- (D) *Ratialusa*'s value of imports is greater than its value of exports.

9. What is the role of the World Bank?

- (A) To settle trade disputes between member countries.
- (B) To promote long-term development projects in developing countries.
- (C) To promote greater trade liberalisation between countries.
- (D) To ensure international financial stability in global financial markets.

10. What does the short run Phillips curve show?

- (A) A tradeoff between inflation and unemployment in the short run
- (B) A tradeoff between inflation and unemployment in the long run
- (C) No tradeoff between inflation and unemployment in the short run
- (D) No tradeoff between inflation and unemployment in the short & long runs

11. How would an increase in economic growth in the global economy affect the market for Australian dollars?

- (A) Demand for Australian dollars would increase and the Australian dollar would rise in value
- (B) Demand for the Australian dollar would decrease and the Australian dollar would fall in value
- (C) Supply of Australian dollars would decrease and the Australian dollar would rise in value
- (D) Supply of Australian dollars would increase and the Australian dollar would fall in value

12. Which of the following economic characteristics is a common feature of developing countries?

- (A) High level of savings
- (B) High rates of capital accumulation
- (C) High levels of external debt
- (C) High rates of economic growth

13. The concept of comparative advantage best describes which economic principle?

- (A) Opportunity cost
- (B) Absolute advantage
- (C) Free trade
- (D) Protection

14. Which of the following is a likely consequence of the purchase of Commonwealth Government Securities by the Reserve Bank in the short term money market?

- (A) A decrease in the cash rate and an expansion in economic activity.
- (B) A decrease in the cash rate and an contraction in economic activity
- (C) An increase in the cash rate and an expansion in economic activity
- (D) An increase in the cash rate and an contraction in economic activity

15. What effect would an economy moving into recession have on automatic stabilizers?

- (A) An increase in government expenditure on capital works
- (B) An increase in expenditure on transfer payments
- (C) A decrease in expenditure on transfer payments
- (D) An increase in income tax revenue

16. Which of the following measures is likely to generate a more unequal distribution of income among individuals in Australia?

- (A) Improved minimum wages
- (B) A decrease in the top rate of marginal income tax
- (C) Increased welfare payments
- (D) An increase in the rate of fringe benefits tax

17. If  $Y=300$ ,  $C=70$ ,  $I=30$ ,  $G=60$  and  $X=170$ , what is the value of imports?

- (A) 50
- (B) 40
- (C) 30
- (D) 20

18. The following table shows information on a nation's Nominal (money) GDP and Consumer Price Index.

Year	Nominal (money) GDP \$billion	Consumer Price Index
2003	\$380	100
2004	\$460	105

What is real GDP in 2004?

- (A) \$399b
- (B) \$460b
- (C) \$483b
- (D) \$438b

19. The following table shows information on the CPI for a nation.

Year	CPI
1	100.0
2	104.0
3	106.2

What is the inflation rate for year 3?

- (A) 2.4%
- (B) 2.1%
- (C) 4.0%
- (D) 6.2%

20. Which are public goods?

- (A) Goods traded in markets by public companies.
- (B) Goods which are rival and excludable
- (C) Goods which are non-rival and non-excludable
- (D) Goods which once consumed cannot be enjoyed by others.

## Section B

**40 marks**

**Attempt Questions 21-24**

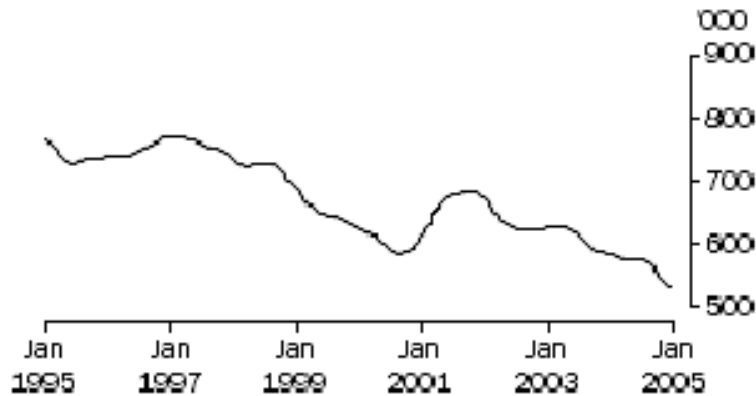
**Allow about 70 minutes for this section**

**Answer the questions on the separate sheet provided**

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**Question 21**

The following graph shows the level of unemployment in Australia from 1995 to 2005.



a) Define the term *unemployment*

(2 marks)

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b) Describe the trends in unemployment from 1995 to 2005 in Australia. (2 marks)

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c) Outline two main causes of unemployment.

(2 marks)





The following table shows the balance of payments for a nation (assume a floating exchange rate)

<b>Current Account (\$billion)</b>		<b>Capital &amp; Financial Account (\$billion)</b>	
Balance on Goods & Services	-2.5	Capital Account	1.2
Net Current Transfers	1.5	Financial Account	47.5
Net Income	?		

a) Using the data in the table, calculate the net income balance. (1 mark)

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b) Outline two causes of Australia's current account deficit. (2 marks)

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c) Explain the relationship between net income in the current account and the capital and financial account. (3 marks)

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**Question 23**

Refer to the hypothetical data below

<b>Income Units</b>	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>	<b>Year 4</b>	<b>Year 5</b>
Lowest Quintile	3.6	3.8	4.2	4.3	4.7
Second Quintile	9.3	9.4	10.2	10.4	10.8
Third Quintile	15.2	15.2	16.3	16.2	16.9
Fourth Quintile	24.0	24.0	23.0	23.1	22.5
Highest Quintile	47.9	47.5	46.2	46.4	45.5
Gini Co-efficient	.443	.444	.478	.480	.491

a) Explain what is measured by the Gini Co-efficient. (1 mark)

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b) Identify the group that has shown the most improvement in their share of income distributed in absolute terms? (1 mark)

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c) State the main source of household income in Australia. (1 mark)

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d) Outline one social cost and one social benefit of income inequality. (2 marks)

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**Question 24**

The following table shows selected economic data for a hypothetical economy.

<b>National Income</b>	<b>Consumption</b>	<b>Saving</b>	<b>Investment</b>
100	100	0	250
200	150	50	250
300	200	100	250
400	250	150	250
500	300	200	250
600	350	250	250

a) Calculate the multiple propensity to save (MPS). (1 mark)

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b) Calculate the equilibrium level of national income. (1 mark)

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c) Calculate the value of the simple multiplier. (1 mark)

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d) Outline three possible sources of economic growth. (3 marks)

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## Section C

20 marks

Attempt either Question 25 or 26

Allow about 40 minutes for this section

Answer the question in a writing booklet

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

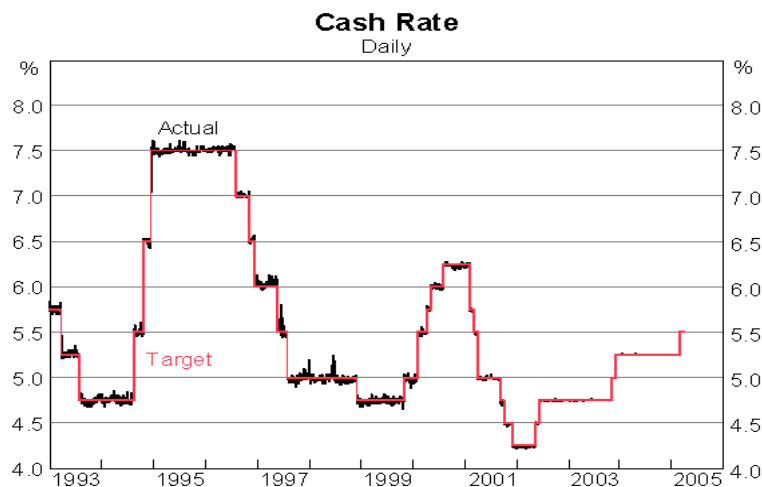
- use your knowledge and the economic information provided
  - apply economic terms, concepts, relationships and theory
  - present a sustained, logical and well-structured answer to the question.
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### Question 25 (20 marks)

Analyse the role and implementation of monetary policy as a tool of economic management in the Australian economy.

The Reserve Bank of Australia is responsible for the formulation and implementation of monetary policy. In Australia, the stance of monetary policy is expressed in terms of a target for the cash rate – the interest rate on unsecured overnight loans between banks”

Source: *RBA 2004 (2005) Bulletin, June.*



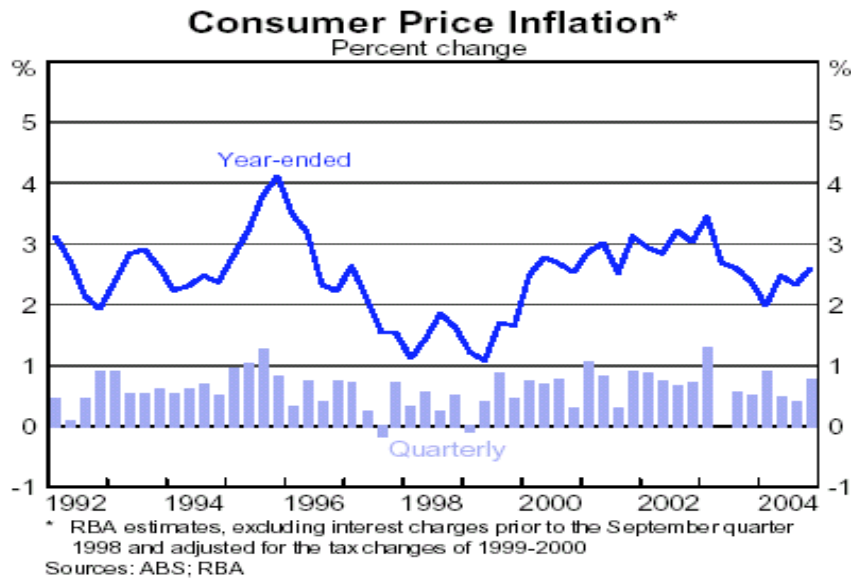
“The Bank will be operating in the money market this morning to increase the cash rate by 25 basis points, to 5.5%. For some time the Bank has been signaling that the cash rate would probably need to be moved higher during the current expansion”

Source: *Governor Ian Macfarlane, March 2, 2005.*

### Question 26 (20 marks)

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.
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## **Section D**

**20 marks**

**Attempt either Question 27 or 28**

**Allow about 35 minutes for this section**

**Answer the question in a SEPARATE 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 and well-structured answer to the question.
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### **Question 27**

Discuss the effects of globalisation on the strategies used to promote economic growth and development in an economy other than Australia.

**OR**

### **Question 28**

Analyse the impact of globalisation on Australia's Balance of Payments and Foreign Debt.