

**St Ignatius College
Riverview**



ECONOMICS

Year 12 Trial Examination 2006

General Instructions

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

Section I (20 marks)

Attempt questions 1-20
Allow about 35 mins for this section

Section II (40 marks)

Attempt questions 21-24
Allow about 75 mins for this section

Section III (20 marks)

Attempt question 25 or 26
Allow about 35 mins for this section

Section IV (20 marks)

Attempt question 27 or 28
Allow about 35 mins for this section

Section I

20 marks

Attempt Questions 1-20

Allow about 35 minutes for this section

Answer the question on the separate answer page provided

Question 1 refers to the table below

Initial change in investment expenditure (\$m)	Marginal propensity to consume (MPC)	Marginal propensity to save (MPS)	Change in equilibrium level of national income(m)
1000	?	?	2500

1. According to the data in the table, what are the values of MPC and MPS
 - (A) MPC is 6.0 and MPS is 4.0
 - (B) MPC is 0.6 and MPS is 0.4
 - (C) MPC is 2.5 and MPS is 7.5
 - (D) MPC is 0.25 and MPS is 0.75
2. Which of the following would reduce protection levels for domestic industries?
 - (A) An increase in tariffs for domestic industries
 - (B) An increase in subsidies for domestic industries
 - (C) An increase in quotas on imported goods
 - (D) An increase in the quarantine period for live animals
3. Which of the following best explains market failure?
 - (A) Renewable resources being exploited too rapidly
 - (B) Prices below the equilibrium lead to a shortage
 - (C) The price mechanism fails to take into account social costs
 - (D) Consumers can obtain the benefits of a good without making a contribution to its cost
4. A rise in the natural rate of unemployment could be explained by:
 - (A) A rise in the level of structural unemployment
 - (B) A rise in the level of underemployment
 - (C) A fall in the labour force participation rate
 - (D) All of the above

5. The table shows selected data for a nation.

Year	Export Price Index	Import Price Index
1	100	104
2	108	114
3	115	118
4	122	124

In which year were fewer exports required to pay for the same volume of imports?

- (A) Year 1
- (B) Year 2
- (C) Year 3
- (D) Year 4

6. Which of the following would assist the government in reducing the level of Public debt?

- (A) An increase in the size of the budget deficit
- (B) An increase in the size of the budget surplus
- (C) An increase in discretionary expenditure
- (D) Privatisation of public assets

7. Which of the following policies is likely to increase income inequality?

- (A) Lowering the income tax threshold
- (B) A reduction in the bottom marginal rate of tax
- (C) A reduction in the top marginal rate of tax
- (D) An increase in the compulsory employer's contribution to superannuation

8. How would the payment of an interest free loan by Microsoft USA to its Australian subsidiary be recorded in Australia's Balance of Payments?

- (A) A debit on the Financial and Capital Account
- (B) A credit on net income in the Current Account
- (C) A debit on the Capital Account
- (D) A credit on the Capital and Financial Account.

9. The stance of monetary policy in Australia is best assessed by:

- (A) Movements in the cash interest rate
- (B) The level of liquidity in the cash market
- (C) The headline rate of inflation
- (D) The natural rate of unemployment.

10. The high rates of economic growth of the Newly Industrialised Economies (N.I.E) in the past decade have been based on:

- (A) High level of protection for domestic industries combined with encouraging joint ventures with foreign TNC's
- (B) Export orientation of industry combined with a strategic role played by government in selecting industries for development
- (C) Borrowings from IMF and the Asian Development Bank coupled with a migration program attracting skilled workers
- (D) High levels of foreign direct investment combined with a reliance on free market forces to promote rapid industrialisation.

11. The following table shows the Consumer Price Index for an economy.

YEAR	CPI
1	100
2	103.9
3	108.4
4	111.5

From the data, we can conclude:

- (A) Inflation is increasing from year 1 to year 4
- (B) The annual rate of inflation is highest in year 4
- (C) The annual rate of inflation is highest in year 3
- (D) The Reserve Bank should adopt a contractionary monetary policy stance.

12. Which of the following is an example of discretionary fiscal policy?

- (A) A change in the budget outcome from a surplus to a deficit
- (B) Changes in the tax threshold in the annual budget
- (C) Changes in taxation revenue due to a downturn in GDP
- (D) Changes in taxation revenue due to bracket creep

Questions 13 and 14 relate to the table below for an economy.

Year	Nominal GDP (\$m)	CPI	Human Development Index (HDI)
1	20,000	100	0.85
2	25,000	108	0.87
3	30,000	110	0.88
4	35,000	110	0.89

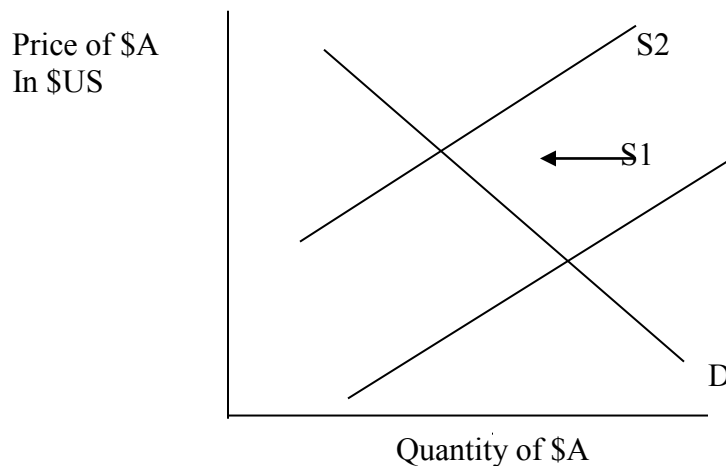
13. From the data above for this economy, the level of real GDP in Year 3 is:

- (A) \$27,570m
- (B) \$25,272m
- (C) \$25,527m
- (D) \$27,272m

14. The level of economic development and economic growth:

- (A) Increased from year 1 to year 4
- (B) Increased from year 1 to year 3 then declined in year 4
- (C) They move in opposite directions in Year 3
- (D) Always are directly related in the Advanced Industrialised Economies (A.I.E)

Question 15 relates to the graph below



15. Which of the following is most likely to cause a shift in the supply curve from S 1 to S 2.

- (A) Fewer Australians are travelling to the USA
- (B) Fewer USA residents visiting Australia
- (C) Decreased export sales to USA
- (D) Decreased subsidies to Australia's export industries

16. A significant rise in the proportion of the population which has retired from the work force will tend to cause:

- (A) A shift in the Lorenz curve to the left
- (B) A fall in the Gini co-efficient
- (C) A rise in the poverty line
- (D) A rise in the Gini co-efficient

17. What are the basic characteristics of a public good?

- (A) They are non rival and non excludable in consumption
- (B) They are non rival and excludable in consumption
- (C) They are sold at no cost in private markets
- (D) They result in negative externalities when consumed.

18. OPEC is an example of

- (A) A customs union
- (B) A Multi-lateral Trade Pact
- (C) A Transnational monopoly
- (D) An oil cartel

19. What is the long term effect of increases in tariff levels?

- (A) Inefficiency in protected domestic industries
- (B) Lower prices for domestic consumers
- (C) Increased profits for import competing firms
- (D) Higher custom duty revenue for the government

20. Which of the following policies is most likely to increase the value of the \$A

- (A) A contractionary monetary policy stance
- (B) A smaller budget surplus
- (C) A contractionary fiscal policy stance
- (D) An expansionary monetary policy stance

40 marks

Attempt ALL Questions 21–24
Allow about 1 hour and 15 minutes for this section
Answer the questions in the space provided

Marks

Question 21 (10 marks)

The tables show the Balance of Payments and Net Foreign Liabilities for an economy for one year.

Current Account (\$ billion)		Capital and Financial Account (\$ billion)	
Balance on Goods & Services	-10.0	Capital Account	5.5
Net Income	?	Financial Account	34.0
Net Current Transfers	1.0	Net Errors & Omissions	0.5

Net Foreign Liabilities (\$ billion)	
Net Foreign Equity	90
Net Foreign Debt	<u>450</u>
	540

- (a) Using the above data calculate the net income component in the Current Account.

1

- (b) Outline TWO factors that could increase a nation's income deficit in the Current Account.

2

Student Number _____

Question 22 (10 marks)

The table shows selected data for an economy over a one-year period.

	\$ (million)
Consumption	500
Investment	250
Government spending	100
Taxation	75
Exports	150
Imports	175
Marginal propensity to consume	0.8

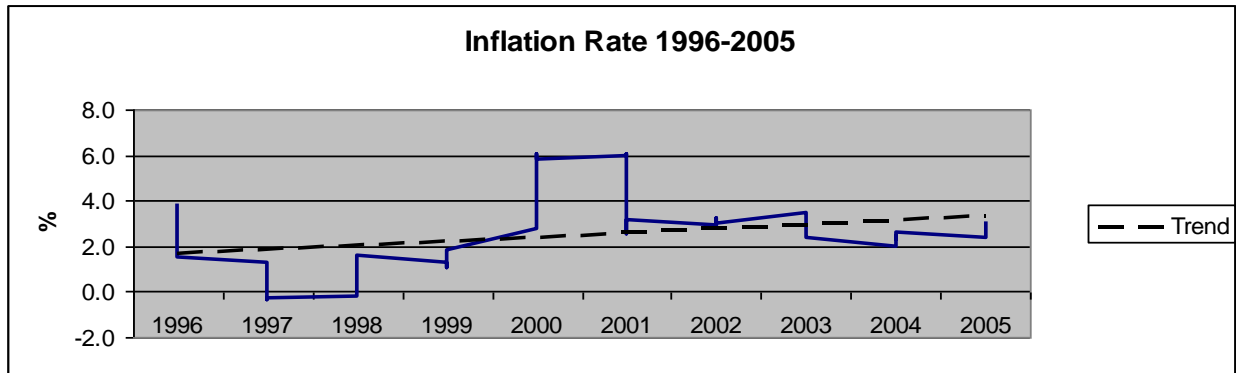
- (a) Define the term *aggregate demand*. 2

- (b) Use the information in the table to calculate the value of the simple multiplier (k). 2

- (c) Explain the impact that an increase in import spending of \$25 million will have on this economy. 2

Question 23 (10 marks)

The following graph shows the level of inflation in Australia from 1996 to 2005.



Source: *Measures of consumer price inflation, Reserve Bank 2006*

- (a) Outline the difference between headline and underlying inflation. 2

- (b) Describe the trend in inflation from 1996 to 2005 in Australia. 2

- (c) Outline TWO effects of inflation on the Australian economy. 2

Question 24 (10 marks)

The following extract relates to Australian Trade Policy

“The Australian Government pursues a combined multilateral, regional and bilateral approach to trade policy. As part of this policy, Australia is open to concluding regional or bilateral agreements that deliver substantial gains to Australia and which cannot be achieved in a similar time frame elsewhere. FTA’s that are comprehensive in scope and coverage can complement and provide momentum to our wider multilateral trade objectives. It’s expected that any progress in regional trade liberalization will be multilateralised in due course through WTO negotiations”

(Australian Department of Foreign Affairs & Trade 2006)

- (a) Outline TWO advantages of free trade 2

- (b) Outline the difference between multilateral and bilateral agreements providing an example of each. 2

Student Number _____

Marks

(c) Outline TWO roles of the World Trade Organisation.

2

(d) Analyse the implications for firms and individuals in Australia of a reduction in protection levels.

4

Section III
20 marks

Attempt Either Question 25 OR 26
Allow about 35 minutes for this section
Answer the question in the booklet 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

Question 25 (20 marks)

Discuss the role and implementation of macroeconomic policies used to address the government's economic objectives of price stability and full employment.

Employment growth was very strong in 2004-2005, supported by high levels of activity in the construction and mining sectors of the economy. Employment is expected to slow to 2% in 2005/06 and 1% in 2006/07 in response to lower GDP growth experienced throughout 2004/2005.

The unemployment rate is anticipated to remain around 5% in 2005/06, slightly above the Budget forecast. In 2006/07, the unemployment rate is expected to stay at 5%.

(Australian Treasury 2006 Mid Year Outlook)

The annual Inflation rate has jumped to an uncomfortable 4 per cent, the highest since 1995 if the one-off price spike following the introduction of the GST is excluded. Prices rose 1.6 per cent in the June quarter alone.

The damage caused to north Queensland farms by Cyclone Larry sent the price of bananas up 250 per cent in the June quarter - which led to price rises for other fruit - while fuel rose 11.2 per cent in the quarter and nearly 25 per cent for the year.

(Matt Wade: Sydney Morning Herald 27/7/06)

OR

Question 26

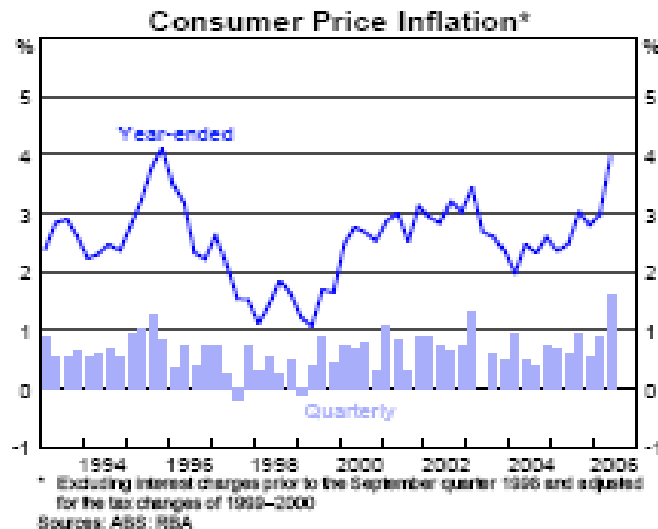
Analyse the role and implementation of monetary policy as a tool of macroeconomic management in addressing the government's economic objectives.

Following a decision taken by the Board at its meeting yesterday, the Bank will be operating in the money market this morning to increase the cash rate by 25 basis points, to 6.0 per cent.

Growth of the Australian economy is taking place against the background of strong international conditions. The world economy is in its fourth successive year of above-average growth, and official and private-sector forecasts are that this will continue next year, despite some moderation in the United States.

These pressures have also been evident in underlying consumer price inflation. In the June quarter, underlying inflation is estimated to have picked up to a rate of just under 3 per cent, confirming the upward drift that had started to become apparent in the previous quarter. Although the increase in the headline CPI was much larger, reflecting fuel price increases and a sharp rise in the price of bananas in the wake of Cyclone Larry, the Board recognises that it is necessary to abstract from temporary influences in forming its policy assessments. Overall the Board's assessment, based on the gradual increase in underlying inflation this year, and the wider background of above-average global growth and strong domestic demand, was that underlying inflation in the period ahead was likely to exceed previous forecasts.

(Source: RBA (2006) August Statement 2/8/06)



End of Section III

Section IV
20 marks

Attempt Either Question 27 OR 28
Allow about 35 minutes for this section
Answer the question in the booklet 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
-

Question 27

Outline the key measurements of Australia's external stability and analyse the impact of the global economy on Australia's external balance.

OR

Question 28

Outline the difference between economic growth and development and analyse the impact of globalisation on economic growth, trade and the distribution of income and wealth in an economy other than Australia.

End of Section IV

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