

STUDENT NAME: _____ TEACHER: _____

SAINT IGNATIUS' COLLEGE

RIVERVIEW



TRIAL H.S.C. EXAMINATION

2007

ECONOMICS

General Instructions

- Reading time – 5 minutes
- Working time – 3 hours
- Board approved calculators may be used
- Write using blue or black pen

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 & 15 minutes for this section
- Answer in the spaces provided on the question paper

Section III

20 marks

- Attempt either Question 25 or 26
- Allow about 35 minutes for this section
- Answer in a separate booklet or on a new sheet of paper

Section IV

20 marks

- Attempt either Question 27 or 28
- Allow about 35 minutes for this section
- Answer in a separate booklet or on a new sheet of paper

Section I
20 Marks

- Answer all questions on the separate multiple choice answer sheet provided
 - Allow about 35 minutes for this section
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- Q1 Which of the following is an advantage of economic growth?
- (A) It reduces the CAD by encouraging exports to developing countries.
 - (B) It provides for higher living standards for the population.
 - (C) It allows the nation to support a higher number of unemployed people.
 - (D) It reduces exploitation of the natural environment through higher taxation receipts and employment.
- Q2 Which of the following would cause a rise in the natural rate of unemployment?
- (A) A fall in the participation rate.
 - (B) A fall in the number of job vacancies.
 - (C) A rise in the rate of structural change in the economy.
 - (D) A rise in the economic growth rate.

- Q3 The following data refers to a hypothetical economy.

	CPI
Year 1	100
Year 2	120
Year 3	132

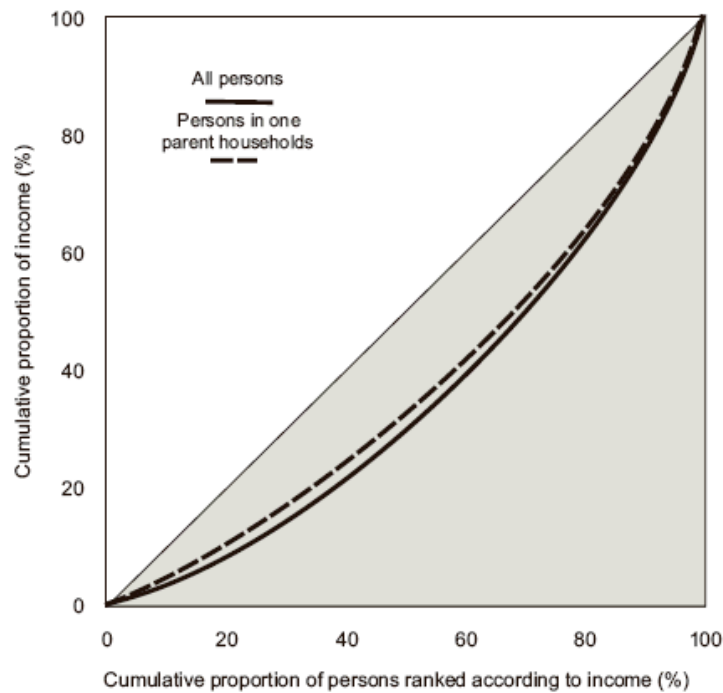
What is the inflation rate in Year 3?

- (A) 10%.
- (B) 12%.
- (C) 32%.
- (D) 132%.

Q4 Which of the following is most likely to cause an increase in Australia's debt-servicing ratio?

- (A) A decrease in export receipts.
- (B) A decrease in global interest rates.
- (C) An increase in net income credits.
- (D) An increase in direct investment abroad.

Q5 Question 5 refers to the following Lorenz curves.



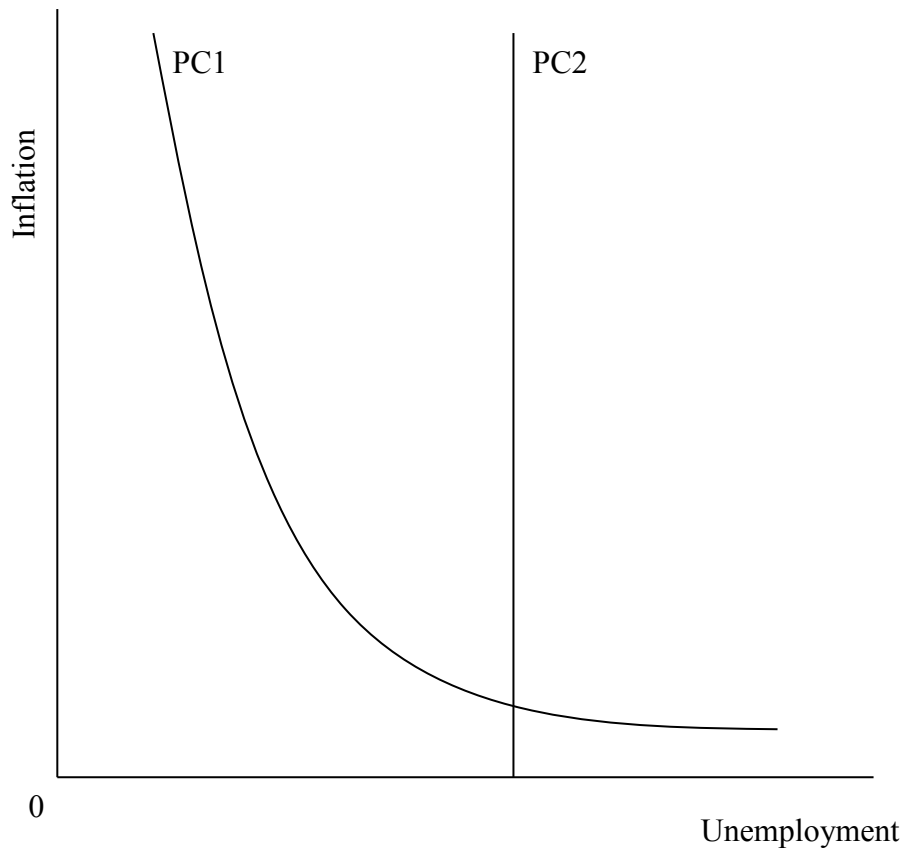
Which of the following is correct?

- (A) The Gini coefficient for "All Persons" is greater than that of "Persons in one parent households" indicating a more equal distribution of income.
- (B) The Gini coefficient for "All Persons" is less than that of "Persons in one parent households" indicating a more equal distribution of income.
- (C) The Gini coefficient for "All Persons" is greater than that of "Persons in one parent households" indicating a less equal distribution of income.
- (D) The Gini coefficient for "All Persons" is less than that of "Persons in one parent households" indicating a less equal distribution of income.

- Q6 Which of the following best describes the objectives intergenerational equity?
- (A) Rapid economic growth and higher standards of living for the future.
 - (B) Reduction of inequalities in both income and wealth over time.
 - (C) Sustainable economic growth and conservation of the natural environment.
 - (D) Eventual reduction of greenhouse emissions and global warming.
- Q7 If the Marginal Propensity to Consume is (MPC) was 0.6 and there was an increase in investment expenditure of \$100m, what would be the ultimate change in national income?
- (A) \$60m
 - (B) \$100m
 - (C) \$250m
 - (D) \$600m
- Q8 Which of the following government measures might lead to a reduction in inequality?
- (A) A decrease in the marginal rate of tax to high income earners.
 - (B) A decrease in the Goods and Services Tax from 10% to 5%.
 - (C) Removal of the means test on social security payments.
 - (D) Tying of wage increases to increases in productivity.
- Q9 Which of the following most likely indicates a contractionary fiscal stance?
- (A) A decrease in the budget deficit.
 - (B) A decrease in the budget surplus.
 - (C) A decrease in tax rates.
 - (D) A decrease in government expenditure.
- Q10 Which of the following best describes automatic stabilizers?
- (A) The discretionary component of the budget.
 - (B) The cyclical component of the budget.
 - (C) Discretionary budget measures.
 - (D) Changes to tax rates and expenditure decisions announced in the budget.

- Q11 Which of the following policy measures would be used by the Reserve Bank to reduce economic growth?
- (A) Buy CGS in order to increase interest rates and increase the money supply.
 - (B) Sell CGS in order to increase interest rates and reduce the money supply.
 - (C) Budget for a surplus to reduce the level of economic activity.
 - (D) Buy CGS in order to increase interest rates and reduce the money supply.
- Q12 What type of investment does a TNC make in a foreign subsidiary?
- (A) Direct investment.
 - (B) Portfolio investment.
 - (C) Share trading.
 - (D) Foreign exchange dealing.
- Q13 Which countries are Australia's top three trading partners?
- (A) UK, Korea and Canada.
 - (B) Japan, China and the USA.
 - (C) New Zealand, Indonesia and Malaysia.
 - (D) Singapore, India and Vietnam.
- Q14 Why do economists prefer subsidies as a form of protection?
- (A) To encourage entrepreneurs to undertake risky business ventures.
 - (B) To reduce waste in the economy.
 - (C) To increase the chance of business failure and thus provide greater income for the government.
 - (D) To lower prices and thus reduce inflation.
- Q15 What is the effect of a rise in interest rates on property prices and inflation?
- (A) Property prices will fall and inflation will fall.
 - (B) Property prices will rise and inflation will fall.
 - (C) Property prices will fall and inflation will rise.
 - (D) Property prices will rise and inflation will rise.

Q16 Question 16 refers to the following Phillips curves.



Which of the following statements is correct?

- (A) PC1 and PC2 are both long run Phillips curves showing no tradeoff between inflation and unemployment.
- (B) PC1 is a long run Phillips curve showing a tradeoff between inflation and unemployment and PC2 is a short run Phillips Curve showing no trade off between inflation and unemployment.
- (C) PC1 is a short run Phillips curve showing a tradeoff between inflation and unemployment and PC2 is a long run Phillips curve showing no tradeoff between inflation and unemployment.
- (D) PC1 and PC2 are both short run Phillips curves showing a tradeoff between inflation and unemployment.

Q17 Which of the following is an advantage of free trade?

- (A) Greater availability and choice of goods and services for consumers.
- (B) Improved Balance of Payments outcomes for all countries.
- (C) The protection of jobs in inefficient industries.
- (D) Greater diversity in local industry.

- Q18 Which of the following organizations is an example of economic and monetary integration?
- (A) The international Monetary Fund.
 - (B) The North American Free Trade Association.
 - (C) The European Union.
 - (D) The Association of South East Asian Nations.
- Q19 Which of the following is the major aim of the World Bank?
- (A) Provide financial help and advice to developing nations.
 - (B) Provide short term, low interest loans for countries with balance of payments problems.
 - (C) Achieve an orderly system of fixed exchange rates between countries so that trade can take place.
 - (D) Reduce levels of protection in world trade.
- Q20 The table shows selected economic data for a nation with a floating exchange rate.

Balance of Payments	\$ billion
Goods credits	600
Goods debits	700
Net services	-500
Net income	?
Capital and Financial Account	1400

What is the value of net income?

- (A) -\$800b
- (B) -\$1000b
- (C) \$600b
- (D) \$800B

Section II

40 marks

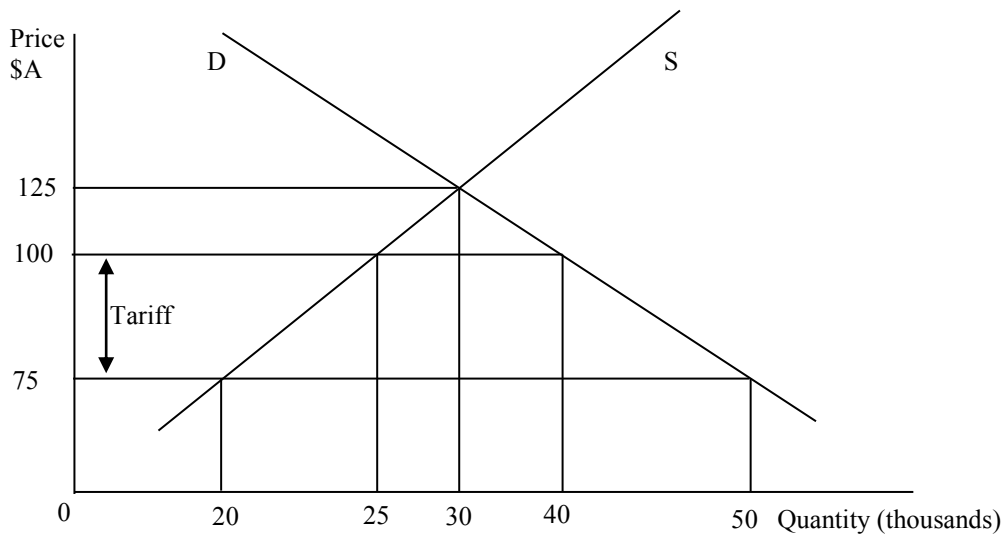
Attempt Questions 21 to Question 24

- Answer each question in the spaces provided
- Allow about 1 hour and 15 minutes for this section

Question 21 (10 marks)

Marks

The diagram shows the effect of a tariff on the domestic fashion industry.



(a) How much revenue does the government receive following the imposition of this tariff? (Show working)

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(b) Explain the affect of this tariff on domestic demand and supply?

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Marks

Question 21 (continued)

(c) What impact does this tariff have on the allocation of resources?

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(d) Analyse ONE cost and ONE benefit of the removal of protection.

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Question 22 (10 marks)

Marks

The table below shows information relating to the economic growth and inflation performance of three hypothetical countries.

Country	Rate of Economic Growth (annual % change in Real GDP)	Inflation Rate (annual % change in prices)
A	7.0%	9.8%
B	4.3%	10.9%
C	6.2%	18.3%

- (a) Using evidence from the table, outline ONE factor influencing the inflation rate experienced by these economies.

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- (b) Distinguish between cost push and demand pull inflation.

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Question 22 (continued)

Marks

- (c) Identify TWO effects of inflation and discuss the impact of each on economic growth and the economic performance of the Australian economy.

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Question 23 (10 marks)

Marks

The following table shows selected data relating to Australia's external stability.

Year	Balance on Current Account (\$m)	Current Account Deficit as % of GDP	Net Foreign Debt (\$m)	Net Foreign Debt as % of GDP
2005-06	-53,407	5.5	499,363	51.7
2006-07 (e)	-58,000	5.75	521,161	54.2

(e) 2007-08 Budget estimate Source: Reserve Bank (2006), *Bulletin*, July

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(a) Define the term *external stability*.

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(b) Outline TWO methods of measuring external stability..

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Question 23 (continued)

Marks

- (c) Explain TWO effects of persistent current account deficits and a high level of net foreign debt on the Australian economy.

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- (d) Explain ONE macroeconomic policy which could be used by the Australian government to address a deterioration in Australia's external stability..

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Question 24 (10 marks)

Marks

The following table shows selected Budget.

Budget Item	2006/07	2007/08
Revenue	\$235.5bn	\$246.8bn
Expenditure	\$221.6bn	\$235.6bn
Fiscal Balance	\$11.9bn	\$10.0bn
Underlying Cash Balance	\$13.6bn	\$10.6bn

(a) Identify TWO ways of measuring the budget outcome.

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(b) Explain why the budget outcome improves as the level of economic activity increases.

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Question 24 (continued) **Marks**

(c) Describe TWO methods of disposing of a budget surplus. **2**

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(d) Discuss the impact of the 2007/08 budget on: **4**

i) The rate of economic growth

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ii) The level of national savings

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Section III

20 marks

Attempt Either Question 25 or 26

- Answer the question in a writing booklet.
 - Extra writing booklets are available.
 - Allow about 1 hour and 15 minutes for this section
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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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EITHER

Question 25 (20 marks)

Discuss the use of monetary policy as an appropriate policy instrument to achieve the economic objectives of price stability and full employment in Australia.

Inflation Rate 1979 – 2007

Unemployment Rate 1995 - 2007

“The Australian economy has performed strongly in the recent period, with favourable outcomes being recorded on several fronts. Output growth has picked up and this has been accompanied by continued strength in incomes and falling unemployment. At the same time, despite high levels of capacity utilisation and tight labour market conditions, there has been some moderation in underlying inflation.”

Reserve Bank of Australia (2007), Statement on Monetary Policy, May

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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OR

Question 26 (20 marks)

Evaluate Australia's economic performance and its impact on ecologically sustainable development.

The Australian economy is expected to strengthen in 2006-07, with the world economy continuing to provide significant impetus to Australia's economic growth. Strong global demand for commodities is boosting business investment, supporting growth and corporate profits and household incomes, and establishing conditions favourable to increasing exports.

Budget Paper No 1 Statement 3: Economic Outlook, 2006-07

Until recent decades, there has been a lack of understanding of the role that Australia's unique environment plays in supporting the economy. The seeming limitless nature of Australia's natural environment meant it had sometimes been undervalued. Pressures on the environment are manifest in problems such as salinity, concerns over water quality and quantity, and issues concerning greenhouse emissions.

Budget Paper No 1 Statement 4: Prosperity and Sustainability, 2005-06

The head of the International Monetary Fund (IMF) Rodrigo de Rato warned climate change could have a devastating effect on the Australian economy, if the projections of the Stern Report on Global Warming were true. He said the economic impact of climate change was alarming.

Adapted from a report in SMH November 18, 2006

End of Section III

Section IV

20 marks

Attempt either Question 27 or Question 28

- Answer the question in a writing booklet.
 - Extra writing booklets are available.
 - Allow about 35 minutes for this section
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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.
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EITHER

Question 27 (20 marks)

Analyse the causes and effects of movements in the exchange rate of the Australian dollar on Australia's economic performance.

OR

Question 28 (20 marks)

Assess the impact that globalisation has had on the development strategies of an economy other than Australia.

End of Section IV