

STUDENT NAME: _____ TEACHER: _____

SAINT IGNATIUS' COLLEGE

RIVERVIEW



TRIAL H.S.C. EXAMINATION

2009

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 What is the major outcome of globalisation?

- (A) An increase in the growth of world trade and investment.
- (B) Improvements in living standards in all developing countries.
- (C) An increase in the spread of tariff barriers.
- (D) An increase in the spread of tariff and non-tariff barriers.

Q2 The following data refers to a hypothetical economy.

	Export Price Index	Import Price Index
Year 1	100	100
Year 2	115	105
Year 3	120	108

Which of the following statements describes the effects of the trend in the terms of trade?

- (A) The volume of exports is increasing at a faster rate than the volume of imports.
- (B) The balance of goods and services will improve.
- (C) Demand for exports has risen by 20 percent between Year 1 and Year 3.
- (D) A greater volume of imports could be purchased with a given volume of exports.

Q3 Which of the following is an advantage of joining a multilateral trade agreement?

- (A) Gaining greater access to foreign markets.
- (B) An increase in access to export markets in non-member nations.
- (C) An increase in government revenue from import duties.
- (D) An ability to focus on trade links with one other nation.

- Q4 By how much would government expenditure need to increase in an economy with a multiplier of 5 if the government wished to increase aggregate demand by \$1000.
- (A) \$200
 - (B) \$800
 - (C) \$1000
 - (D) \$5000

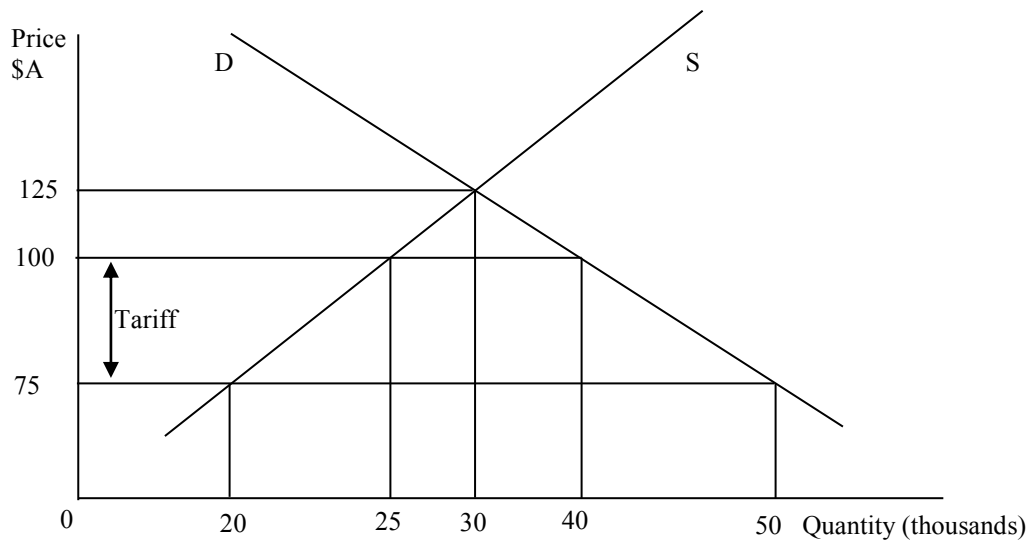
- Q5 The Reserve Bank has made a decision to sell second-hand Commonwealth Government Securities. What would be the effect of this strategy?
- (A) Increasing liquidity in the cash market and reducing the official cash rate.
 - (B) Decreasing liquidity in the cash market and reducing the official cash rate.
 - (C) Increasing liquidity in the cash market and increasing the official cash rate.
 - (D) Decreasing liquidity in the cash market and increasing the official cash rate.

- Q6 From the information in the table, what is the unemployment rate in this economy?

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	24 million

- (A) 16.7%
- (B) 25%
- (C) 29%
- (D) 33%

Q7 The following diagram shows the effect of the application of a tariff.



How much extra revenue would be raised by domestic producers after this tariff is applied?

- (A) \$ 375,000.
- (B) \$ 1,000,000.
- (C) \$ 1,250,000.
- (D) \$ 2,250,000

Q8 Which countries are Australia's main three trading partners?

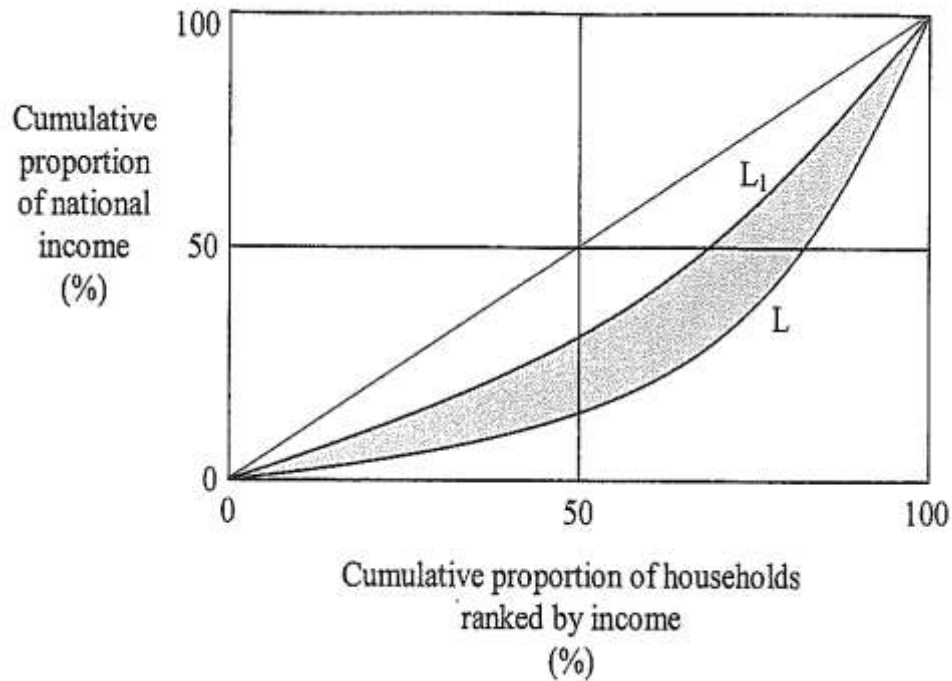
- (A) Japan, China and the USA.
- (B) UK, Korea and Canada.
- (C) New Zealand, Indonesia and Malaysia.
- (D) Singapore, India and Vietnam.

Q9 The Trade Weighted index is an index of the value of the \$A in relation to

- (A) an average of international currencies including gold
- (B) the consumer price index and the weighting of selected consumer items
- (C) a basket of currencies of Australia's major trading partners
- (D) the rise in the debt servicing requirement in the current account

- Q10 Which of the following has been the main contributor to Australia's high level of foreign liabilities in recent years?:
- (A) Increased receipts of Australian dollars due to exports to China.
 - (B) The high savings rate of the domestic economy.
 - (C) The Commonwealth government's borrowings from overseas.
 - (D) Australia's reliance on foreign savings to fund investment projects.
- Q11 Which of the following actions is available to the Reserve Bank of Australia to lead to a depreciation of the Australian dollar?
- (A) Acting directly in the market by buying Australian dollars from prospective overseas investors.
 - (B) Increasing domestic interest rates to encourage overseas investment in Australian assets.
 - (C) Acting indirectly in the market by decreasing interest rates leading to Australians investing overseas at higher interest rates.
 - (D) Buying Australian dollars from prospective exporters to allow them greater access to overseas markets.
- Q12 Which of the following government policy measures would reduce the natural rate of unemployment?
- (A) Expansionary fiscal policy.
 - (B) Expansionary monetary policy.
 - (C) Increases in unemployment benefits.
 - (D) Job retraining schemes.
- Q13 Falling inflation, increasing unemployment and falling investment are characteristics of what stage of the business cycle?
- (A) Upturn
 - (B) Downturn
 - (C) Depression
 - (D) Boom

- Q14 Physical Quality of Life Index measures
- (A) the economic growth levels of a country.
 - (B) the ability of a nation to meet basic needs of a countries inhabitants.
 - (C) quantitative elements of economic development.
 - (D) the ability of a nation to meet high living standards.
- Q15 The diagram shows the movement in the Lorenz curve in an economy from L to L₁.

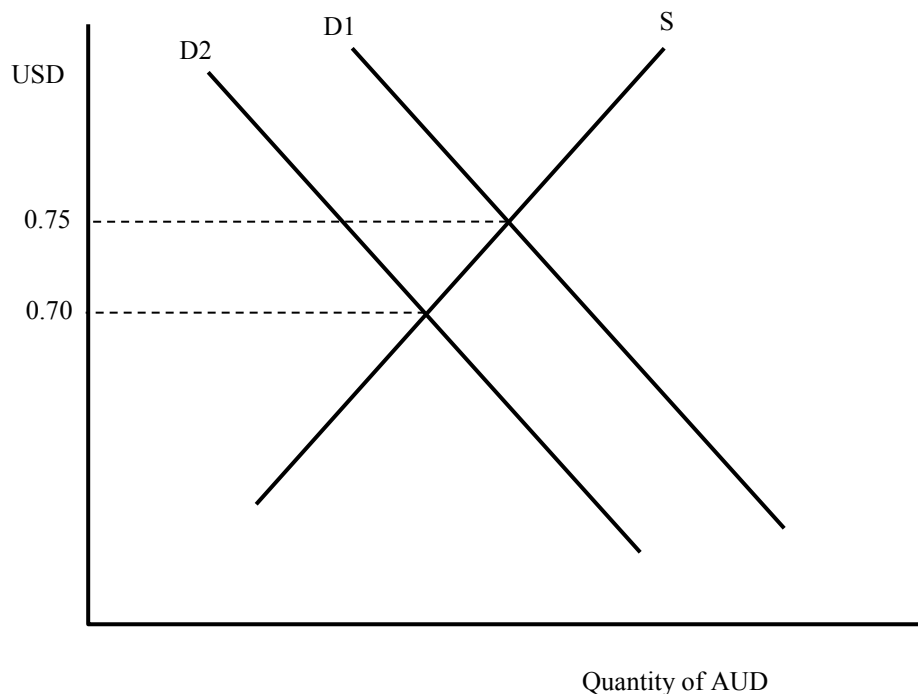


- What does the shaded area between the Lorenz curves L and L₁ represent?
- (A) The level of income inequality in the economy.
 - (B) The Gini co-efficient.
 - (C) The reduction in income inequality in the economy.
 - (D) The increase in income inequality in the economy.
- Q16 Which of the following 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 domestic industries.
 - (D) Greater diversity in local industry.

Q17 Which of the following is a reason that developing nations often incur a deficit on the current account?

- (A) They have imposed severe restrictions on imports.
- (B) Their manufacturing exports often fluctuate in price.
- (C) They experience declining terms of trade.
- (D) They rely heavily on foreign aid.

Q18 The diagram shows information about the demand and supply of Australian dollars (AUD) in terms of United States dollars (USD). Both countries have flexible exchange rates. On Day 1 the demand for AUD was shown by D1. On Day 2 the demand was D2.



Which of the following could have caused the change indicated?

- (A) An increase in interest rates in the United States.
- (B) A decrease in exports from Australia to the United States.
- (C) A decrease in imports from the United States to Australia.
- (D) An increase in imports from the United States to Australia.

Q19 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%.

Q20 Which of the following is a method of disposing of a budget surplus?

- (A) Reducing the rate of personal income tax.
- (B) The sale of Government-owned assets.
- (C) Retiring Government debt.
- (D) Increasing expenditure on infrastructure projects.

Section III

Stimulus Essay

- Allow about 35 minutes for this section
- Answer the question in the writing 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

Discuss the use of macroeconomic policies in achieving the Australian government's objectives of economic growth and full employment.

The combined impact of the easing of fiscal and monetary policy is likely to be substantial. The fact that Australia is experiencing, so far, a smaller downturn than most countries reflects in part the relatively smaller extent of the sort of financial excesses that have been the problem in some other countries, as well as the good fortune of our position in relation to China. But, significant macroeconomic policy responses will have also played a role. Fiscal initiatives were not only sizeable but implemented quickly. The impact of monetary policy easing in terms of reducing debt servicing burdens for borrowers has been greater than in the major northern hemisphere countries.

Source: Glenn Stevens (2009) *Economic Update*, 4th June 2009

Changes in the Cash Rate 2008-09			Forecasts for the Budget Outcome 2008-2010		
Year	Month	% Change	Year	Fiscal Balance	% of GDP
2008	September	-0.25	2008-2009	-32.9 billion	-2.7%
	October	-1.00	2009-2010	-53.1 billion	-4.5%
	November	-0.75			
	December	-1.00			
2009	February	-1.00			
	April	-0.25			
Source: RBA Bulletin, September 2008 to April 2009 issues			Source: Commonwealth of Australia (2009) Budget Statement no.1		

Section IV
Extended Response
Total Marks (20)
Attempt either question 27 OR 28
Allow about 35 minutes for this section

Answer the question in the separate writing 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
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EITHER

Question 27

For an economy other than Australia, explain how government development strategies and policies have responded to the process of globalisation.

OR

Question 28

Discuss Australia's policies regarding free trade and protection and the implications of global protection for the Australian economy.

CANDIDATE NUMBER:

St Ignatius' College, Riverview



SEMESTER 1 EXAMINATION 2009 ECONOMICS

DO NOT DETACH THIS COVER SHEET

SECTION I ANSWER SHEET

Instructions

Read each question and its suggested answer.

When you have decided which answer is correct, place a **CROSS (X)** through the appropriate alternative.

Mark only one alternative per question.

Attempt **ALL** questions.

Write your candidate number on the top of each page.

SECTION II QUESTIONS

Instructions

Attempt **ALL** questions

Write your candidate number on the top of each page.

CANDIDATE NUMBER:

St Ignatius' College, Riverview



SEMESTER 1 EXAMINATION 2009 ECONOMICS

Instructions

- Read each question and its suggested answer.
- When you have decided which answer is correct, place a CROSS (X) through the appropriate alternative.
- Mark only one alternative per question.
- Attempt **ALL** questions.

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|-----|----------|----------|----------|----------|
| 1. | A | B | C | D |
| 2. | A | B | C | D |
| 3. | A | B | C | D |
| 4. | A | B | C | D |
| 5. | A | B | C | D |
| 6. | A | B | C | D |
| 7. | A | B | C | D |
| 8. | A | B | C | D |
| 9. | A | B | C | D |
| 10. | A | B | C | D |
| 11. | A | B | C | D |
| 12. | A | B | C | D |
| 13. | A | B | C | D |
| 14. | A | B | C | D |
| 15. | A | B | C | D |

Section II

40 marks

Attempt Questions 21-24

- Answer each question in the spaces provided
- Allow about 75 minutes for this section

Question 21 (10 marks)

Marks

Year	Balance on Current Account \$b	Current Account as a % of GDP	Net Foreign Debt at the end of June \$b	Net Foreign Debt to GDP ratio (% of GDP)
2007-2008	-67.4	6.2%	610	56.2%
2008-2009	-55.0	5.0%	678.3	57.4%

(a) Identify ONE method of measuring external stability.

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(b) Define the term *external stability*.

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CANDIDATE NUMBER:
TEACHER INITIALS.....

Marks

Question 21 (continued)

(c) Explain ONE effect of a persistent current account deficit on the Australian economy.

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

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CANDIDATE NUMBER:
TEACHERS INITIALS:

Question 22 (10 marks)

Marks

	June 2008	June 2009
Employed Persons ('000)	10,772.5	10,880.2
Unemployed persons ('000)	668.4	943.8
Unemployment Rate (%)	4.2	5.8
Inflation Rate	5.0%	1.5%

- (a) Identify the groups who comprise the labour force and calculate the size of the labour force in June 2009.

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- (b) Discuss ONE economic effect of the trend in unemployment between June 2008 and June 2009.

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CANDIDATE NUMBER:
TEACHERS INITIALS:.....

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- (c) Describe ONE reason for the trend in the level of unemployment in Australia between June 2008 and June 2009.

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- (d) Explain why the goals of low inflation and low unemployment are difficult to achieve simultaneously.

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CANDIDATE NUMBER:

TEACHERS INITIALS:

Question 23 (10 marks)

Marks

The centerpiece of the Rudd Government's economic reform agenda is its Carbon Pollution Reduction Scheme (CPRS). Minister for Climate Change Senator Penny Wong said the scheme would "reform and transform the Australian economy...if you're in any doubt that tackling climate change is an economic issue, let me explain. Putting the environment and the economy in separate boxes makes no sense because the economy exists within the natural environment. No environment, no economy.... economic activity has many adverse effects on the environment and when that activity has done sufficient damage to the environment, the environment has adverse effects on the economy"

Source: Penny Wong, August 2008. Address to Business Economists.

(a) Define the term *market failure*.

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(b) Outline ONE cause of market failure with regard to environmental resources.

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CANDIDATE NUMBER:
TEACHERS INITIALS:

Marks

Question 23 (continued)

(c) Outline TWO key aspects of public goods

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(d) Explain TWO economic policies or methods that a government can use to manage environmental resources.

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Question 24 (10 marks)

Marks

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

Item	\$ Millions
Consumption	500
Investment	250
Government spending	100
Taxation	75
Savings	55
Exports	150
Imports	175
Marginal Propensity to save	0.2

(a) Define the term *aggregate demand*.

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(b) Calculate the level of aggregate demand in the above economy.

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(c) Use the information in the table to calculate the size of the simple investment multiplier.

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STUDENT NUMBER.....
TEACHER'S INITIALS.....

Question 24 (10 marks)

Marks

(d) Explain how ONE domestic influence and ONE global influence can affect Australia's economic growth.

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Marking Criteria – 2009 TRIAL EXAM - ECONOMICS

Question	Answer	Question	Answer
1	A	11	C
2	D	12	D
3	A	13	B
4	A	14	B
5	D	15	C
6	B	16	A
7	B	17	C
8	A	18	B
9	C	19	A
10	D	20	C

Question 21

Suggested Answer	Mark/Criteria
a. Maintaining a low BOP as a %of GDP, stability of exchange rate as measured by the TWI, low foreign debt as a % of GDP, ability to service foreign liabilities in medium to long run.	1mk for 1 measurement
b. An economic objective where a country is able to meet it's international financial obligations from trade and capital flows.	2mks for both 1mk for 1
c. CAD contributes to a higher level of foreign liabilities, increased servicing costs, increased exchange rate volatility, constraint on future economic growth and reduced living standards.	2mks for 1 effect and explanation 1mk for 1 effect without explanation
d. Fiscal policy is largely assigned the role of achieving external balance by ensuring that the budget is kept in balance and that a higher level of public saving (through accumulated fiscal surpluses) can be used to reduce Australia's call on foreign savings.	4mks for both with explanation 2mks for 1 with explanation
b. Monetary policy is assigned a counter cyclical stabilisation role through the use of an inflation target. Changes in interest rates impact on aggregate demand and the exchange rate and can thus impinge on the BOP outcome.	1mk for both without explanation.

Question 22

Suggested Answer	Mark/Criteria
<p>a. Groups – Employed persons + Unemployed persons actively seeking work Size = 11,824,000</p> <p>b. Economic effects of increasing U_e:</p> <ul style="list-style-type: none"> - opportunity cost underutilization of resources - lower living standards - loss of taxation revenue to the government & increased welfare - loss of skills to long term unemployed - lower wage growth <p>c. Answers could include:</p> <ul style="list-style-type: none"> - Cyclical; global recession led to lower demand for goods which had flow on effects through the Australian economy in terms of lower consumption & investment causing lower economic growth - Monetary policy: Contractionary stance of previous years led to lower growth & the derived demand for labour may have been affected... <p>d. Students should discuss the idea of the short run Phillips curve. Governments may pursue policies aimed at improving economic growth such as stimulus/discretionary spending. This will create demand & will lead to lower unemployment. However this is often at the expense of inflation as the demand creates price pressure & possibly wage growth which has inflationary pressure.</p>	<p>1 for groups 1 for calculation</p> <p>2: Adequate discussion of one effect showing a point for or against</p> <p>1: identified effect only or vague in discussion</p> <p>3: Clear explanation identifying cause & effect using correct terms 1-2: May lack terms or be descriptive</p> <p>3-4: understands concept of p/curve 7 explain relationship clearly 1-2: may describe both issues without making links.</p>

Question 23

Suggested Answer	Mark/Criteria
a. Clearly defines market failure. Provides a sketchy outline of market failure	2 1
b. Clearly outlines one possible cause of market failure with reference to environmental resources. Outlines a causes of market failure with no reference to the environment OR sketchy cause of market failure	2 1
c. Outlines TWO clear features of public good Outlines one feature OR sketchy outline of features	2 1
d. Clearly explains TWO separate policies used to manage environment. Explains one policy OR sketchy explanation of policies	3-4 1-2

a) Market Failure – a condition arising in markets where unrestricted operation of markets leads to socially undesirable results of produces inefficient outcomes. The price mechanism accounts for the private costs & benefits involved in production as but fails to account for the social indirect costs.

b) Cause of failure regarding environmental resources – firms factor private costs into their pricing & usually ignore marginal social costs. The pricing mechanism therefore ignores environmental outcomes from production activities that are unfavourable and have poor consequences for the environment. Students need to outline the environmental cost that is not accounted for in the production of the good or service.

c) Key aspects of public goods – non excludable: producers cannot exclude the consumers from enjoying the benefit of a good even though they are not prepared to pay OR non rival: consumption of a good by one consumer does not reduce the quantity of the good available for other consumers

d) Policies/Methods of government to manage environmental resources –

- bans on the production of certain goods and services such as leaded petrol
- taxes aimed at increasing costs and reducing supply (internalizing externalities) examples of which include excise duties
- use of permits which limit the amount of use of a resource & can be bought or sold
- the carbon pollution reduction scheme
- subsidizing enviro friendly goods and services such as public transport and clean energy initiatives
- Kyoto Protocol; agreed to reduce emissions & meet environmental targets
- Policies which protect environment such as marine parks, national parks etc...

- **Question 24**

Suggested Answer	Mark/Criteria
a. Clearly defines aggregate demand with reference to five sector model	2
Incomplete definition of aggregate demand OR reference to only 3 /4 sector model	1
b. Correctly calculates AD = \$825bn . In five sector Economy.	2
c. Correctly calculates the multiplier as 5 .	2
States correct formula for multiplier without answer.	1
d. Clearly identifies ONE domestic and ONE global factor and explains how each has impacted on our growth.	3-4
Explains only one factor OR explanation is sketchy	1-2

Answers could include:

- **total expenditure in a open economy**
- **1/1-MPC or 1/MPS**
- **Recent stimulus package, GFC, slowdown in major export markets, rising levels of unemployment.**
- **Consumer confidence, falling interest rates.**

Section IV - Question 27

Criteria	Marks
<ul style="list-style-type: none"> • Demonstrates factually precise and extensive knowledge of the development strategies used by governments clearly explaining the response to global factors utilised by an economy other than Australia • Synthesises relevant economic data to support a comprehensive, contemporary and theoretical discussion in a sustained, logical and well-structured answer • Integrates economic terms, concepts, issues, relationships and theory 	17–20
<ul style="list-style-type: none"> • Demonstrates a good knowledge of the development strategies used by governments explaining the response to global factors utilised by an economy other than Australia • Uses relevant data to develop a logical and well-structured response • Applies appropriate economic terms, relevant concepts, relationships and theory 	13–16
<ul style="list-style-type: none"> • Demonstrates a satisfactory knowledge of the development strategies used by governments with an attempt at the response to global factors utilised by an economy other than Australia • Uses relevant data to develop a coherent response • Applies appropriate economic terms, concepts and theory 	9–12
<ul style="list-style-type: none"> • Sketches in general terms development strategies of economies other than Australia • Makes minimal use of data to develop a generalised response • Uses some economic terms and concepts 	5–8
<ul style="list-style-type: none"> • Demonstrates basic knowledge of development & may give an example of strategies utilised by government • Basic use of some terminology in a limited response 	1–4

Answers may include:

- **Impacts of the global economy & globalisation such as:**
 - Decreased protection
 - Increased trade flow & volume
 - TNC's
 - Financial flows
- **Development strategies such as:**
 - Decreased protection & policies opening up free trade
 - government support of certain industries
 - Increased expenditure on health, infrastructure & housing
 - Increased regulation of financial sectors
 - Inclusion in free trade agreements & WTO membership