

The Scots College 2012
TRIAL HIGHER SCHOOL CERTIFICATE EXAMINATION

Economics



General Instructions

- Reading time – 5 minutes
- Working time – 3 hours
- Write using blue or black pen
- Write Student Number at the top of this page, the Multiple-Choice Answer sheet, page 10, and the Answer Booklet provided.

Total marks – 100

Section I 20 marks

- Attempt Questions 1-20
- Allow about 35 minutes for this part

Section II 40 marks

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

Section III 20 marks

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

Section IV 20 marks

- Attempt either Question 27 OR Question 28
- Allow about 35 minutes for this section

Section I

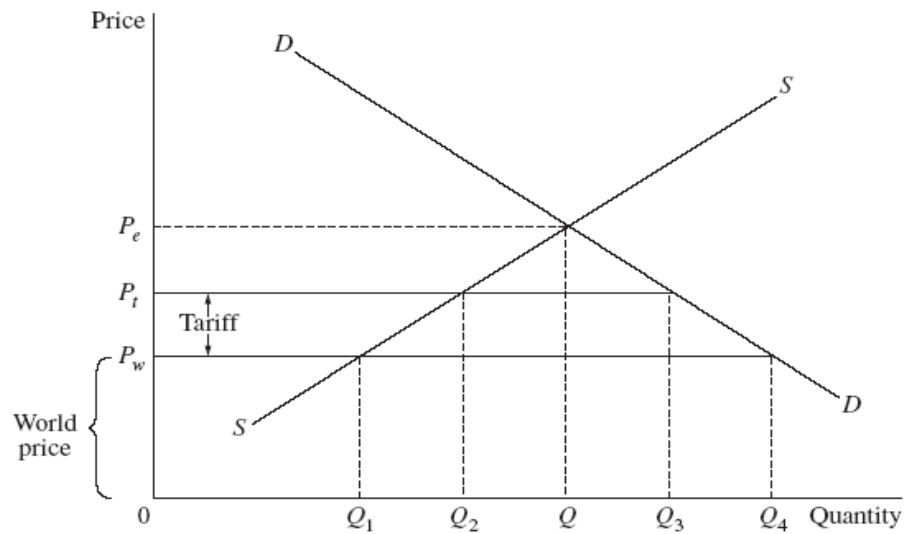
20 marks

Attempt Questions 1-20

Allow about 35 minutes for this section

- 1 Which of the following is a key trend of globalisation?
- (A) A fall in global portfolio investment
 - (B) A fall in trade flows between developed economies
 - (C) A fall in barriers to labour mobility
 - (D) A fall in currency speculation
- 2 Which of the following best explains the difference between economic growth and economic development.
- (A) Economic growth provides a more accurate indication of living standards
 - (B) Economic development includes measures of health, education and GDP.
 - (C) Economic growth is a short term concept and development is a long term concept.
 - (D) Economic development and economic growth provide identical measures of quality of life.
- 3 Which of the following is likely to reduce inequality in the global distribution of income?
- (A) An increase in agricultural subsidies in the EU
 - (B) An increase in bilateral trade agreements between developed nations
 - (C) An increase in global interest rates
 - (D) An increase in multilateral trade agreements involving developing nations
- 4 In relation to exchange rate systems, when is a dirty float most likely to be implemented?
- (A) When an external shock causes a rapid change in the exchange rate
 - (B) When a government regards the value of capital inflow to be too small
 - (C) When a government regards the value of capital inflow to be too large
 - (D) When export-dominated sectors of an economy are suffering reduced profits

5 Which of the following represents the effect of imposing a tariff on an economy?



Which of the following represents the effect of imposing a tariff on an economy?

- (A) The domestic price would increase to the equilibrium price ($0P_e$)
- (B) Domestic production would increase from $0Q_1$ to $0Q_2$
- (C) Import volumes would increase from $0Q_2$ to $0Q_3$
- (D) Government revenue would be equal to the world price ($0P_w$)

6 The following data shows the foreign liabilities of an economy.

Year	Loans owed by domestic citizens and companies to foreigners (\$billion)	Loans owed by foreigners to domestic companies and financial institutions (\$billion)	Value of domestic assets owned by foreigners (\$billion)	Value of foreign assets owned by domestic citizens and companies (\$billion)
1	500	200	800	400
2	750	320	920	550

What changes have occurred between Year 1 and Year 2

- (A) A decrease in net foreign debt and an increase in net foreign equity
- (B) An increase in net foreign debt and an increase in net foreign liabilities
- (C) A decrease in net foreign debt and a decrease in net foreign equity
- (D) A decrease in net foreign debt and a decrease in net foreign liabilities

7 Which of the following could worsen the international competitiveness of an economy?

- (A) The surplus in the government budget becomes a deficit
- (B) An increase in official interest rates
- (C) Wage increases in the manufacturing and services sectors
- (D) Trade negotiators are unable to complete a new trade agreement with another country

8 Which of the following is a structural cause of Australia's current account deficit?

- (A) Falling demand for our exports from our trading partners
- (B) An increase in domestic interest rates
- (C) An increase in demand for imports during an economic upswing
- (D) A low level of household saving

9 The Reserve Bank has made a decision to buy second-hand Commonwealth Government Securities. What would be the effect of this intervention?

- (A) Increasing liquidity in the cash market and reducing the official cash rate or interest rates
- (B) Decreasing liquidity in the cash market and reducing the official cash rate or interest rates
- (C) Increasing liquidity in the cash market and increasing the official cash rate and interest rates
- (D) Decreasing liquidity in the cash market and increasing the official cash rate and interest rates

10 This table shows average exchange rate data for a nation

Year	Export Price Index	Import Price Index
1	100	100
2	120	110
3	125	115

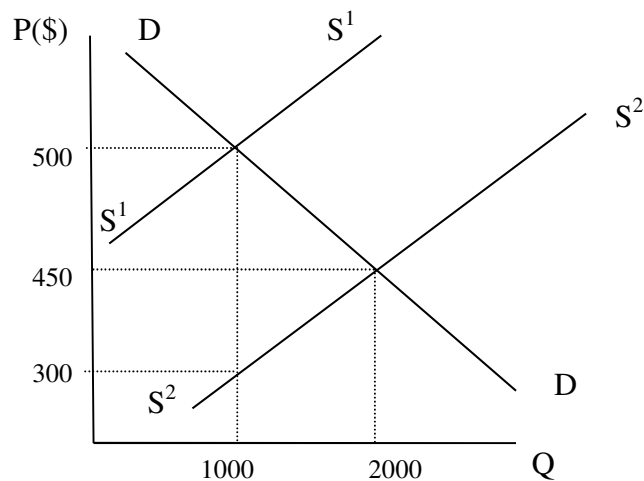
Which of the following statements describes the effects of the trend in the terms of trade?

- (A) The volume of exports are increasing faster than the volumes of imports
- (B) Other things being constant, the balance of goods and services will improve
- (C) Demand for exports has risen by 20 per cent between Year 1 and Year 3
- (D) The terms of trade has deteriorated in Year 3.

11 Which of the following government policy settings would lead to an increase in the level of ecologically sustainable development in an economy?

- (A) A decrease in carbon tax rates and a decrease in income tax rates
- (B) An increase in subsidies to the coal industry and a reduction in fuel excise
- (C) An increase in carbon taxes and an increase in the approval of industrial developments
- (D) An increase in fuel excise and a decrease in company tax rates for renewable energy producers

- 12** Which of the following is a discretionary change to a budget outcome?
- (A) An increase in company tax receipts due to an increase in export sales
 (B) A decrease in welfare spending due to an increase in employment
 (C) An increase in GST revenue due to an increase in consumer spending
 (D) A decrease in income tax receipts due to an increase in the tax-free threshold
- 13** The following diagram shows the imposition of a subsidy in a market.



- What is the amount of the subsidy paid by the government to the producer per unit of output?
- (A) \$300
 (B) \$200
 (C) \$150
 (D) \$50
- 14** Which of the following policy options would be used to reduce the size of an economy's current account deficit?
- (A) Increased interest rates and a larger budget deficit
 (B) Tax incentives to increase household savings
 (C) Increase in infrastructure spending
 (D) Reducing income tax rates

15 The table refers to the labour market data for an economy.

Year	Employed persons (Millions)	Unemployed persons (Millions)	Working age Population (Millions)
1	8.5	1.0	15.6
2	9.9	1.1	16.0
3	9.0	0.3	16.2

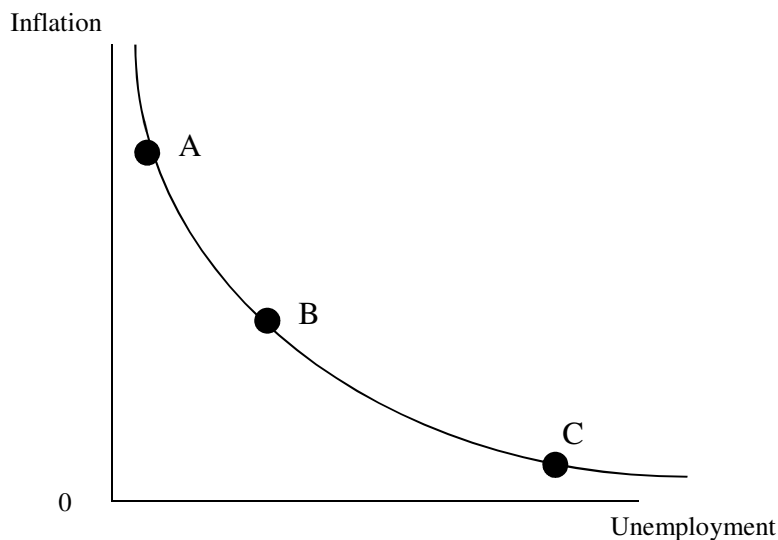
What is the unemployment rate in Year 2?

- (A) 5.0 per cent
- (B) 10.0 per cent
- (C) 4.0 per cent
- (D) 2.5 per cent

16 Which of the following is a merit good?

- (A) Public education
- (B) Superannuation
- (C) Airports
- (D) Telecommunications

17 The following diagram shows the relationship between unemployment and inflation in an economy.



Which of the following describes best describes the need for this economy?

- (A) At point C there is a need to increase interest rates and cut tax.
- (B) At point C there is a need to cut both interest rates and tax.
- (C) At point A there is a need to increase wages.
- (D) At point A there is a need to increase interest rates and cut tax.

- 18** Which of the following goods are both non-excludable and public goods?
- (A) The light provided by light houses
 - (B) Pubs and hotels
 - (C) Private education
 - (D) Olympic gold medals
- 19** Which of the following is a rationale for a movement from a centralised and regulated system of wage determination to a decentralised and deregulated system of wage determination?
- (A) Employers will have the ability to reduce the wages and conditions of their employees below award wages
 - (B) Increases in productivity improvements in return for wage increases
 - (C) Increases in government control over wage setting
 - (D) Increases in the role of tribunals in wage setting
- 20** Which of the following is a characteristic of a centralised approach to wage determination?
- (A) Individual contracts between employees and employers
 - (B) Wage increases are linked to productivity increases
 - (C) Usage of common law contracts
 - (D) The involvement of tribunals in setting wage increases

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Economics
Section II

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Student Number

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

Answer the questions in the spaces provided.

Marks

Question 21 (10 marks)

(a) Outline 2 advantages of free trade.

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(b) Distinguish between a tariff and a quota.

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Question 21 (continued)

Marks

- (c) Explain the infant industry argument in relation to protection of a domestic industry. **2**

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- (d) Analyse the short term and long term impacts of reduced levels of protection. **4**

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End of Question 21

Question 23 (10 marks)

Marks

(a) Define the term intergenerational equity.

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(b) Explain with examples the difference between a positive and a negative externality

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Explain the trade off between higher rates of economic growth and the level of greenhouse gas emissions.

(c)

2

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Economics
Section III

20 marks

Attempt either Question 25 OR Question 26

Allow about 35 minutes for this section

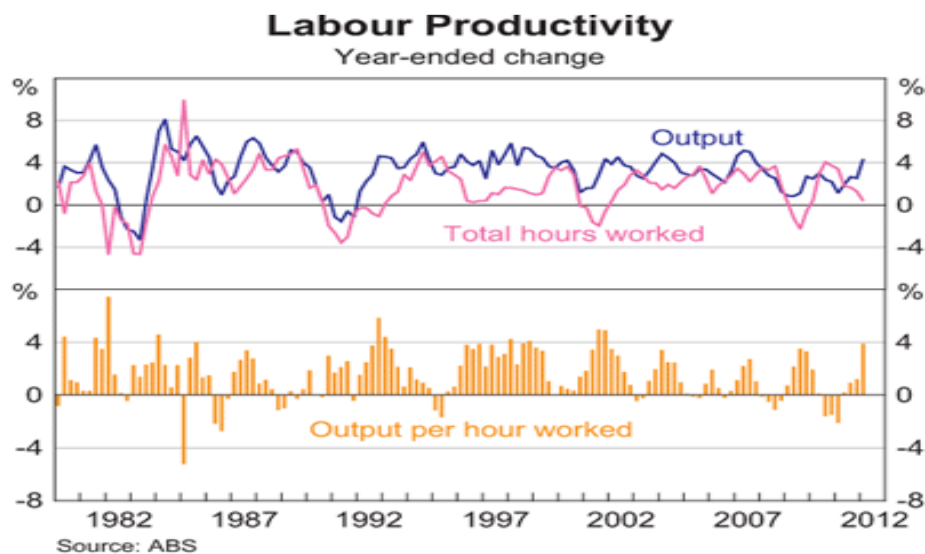
Answer the question in a writing booklet. Extra writing booklets are available.

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

- use your knowledge and 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 impacts of Microeconomic policies on the efficiency and international competitiveness of the Australian Economy in recent years.



Productivity growth is a crucial source of growth in living standards. Productivity growth means more value is added in production and this means more income is available to be distributed. At the national level, productivity growth raises living standards because more real income improves people's ability to purchase goods and services (whether they are necessities or luxuries), enjoy leisure, improve housing and education and contribute to social and environmental programs.

Source: Australian Productivity Commission

OR

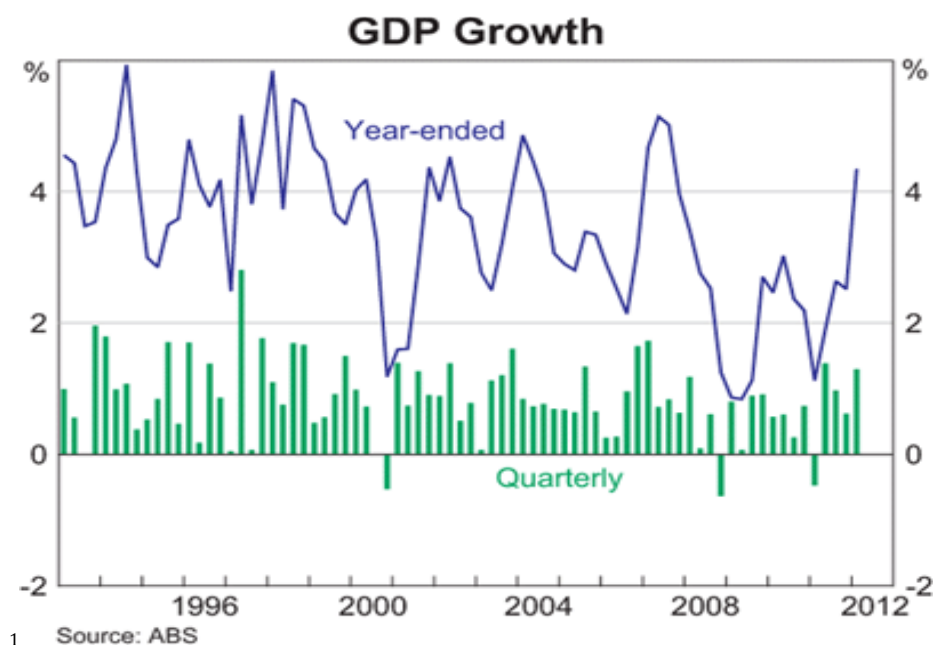
Answer the question in a writing booklet. Extra writing booklets are available.

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

- use your knowledge and 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 26 (20 marks)

Evaluate the effectiveness of policies aimed at achieving non-inflationary growth in the Australian Economy in recent years.



Recent data for inflation show that after a pick up in the first half of last year, underlying inflation has declined again, and was a little over 2% for the last four quarters. Over the coming one or two years inflation will probably be lower than earlier expected but till in the 2-3% range.

Adapted from RBA statement May 2012

Section IV

20 marks

Attempt either Question 27 OR Question 28

Allow about 35 minutes for this section

Answer the question in a SEPARATE writing booklet. Extra writing booklets are available.

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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Question 27 (20 marks)

Analyse the causes and impacts of the recent appreciation of the Australian dollar.

OR

Question 28 (20 marks)

Explain how the international business cycle has influenced the internal and external performance of the Australian Economy in recent years.

End of paper