

Student Number



Shore

2012-13
HSC ASSESSMENT TASK 4
TRIAL HSC EXAM

Economics

General Instructions

- Working time – 3 hours (5 minutes reading time)
- Board-approved (non programmable) calculators may be used
- Write using blue or black ink
- Write your Examination Number where required

Section I

Total Marks (20)

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

Section II

Total Marks (40)

- Attempt all Questions 21 - 24
- Write your answers in the spaces provided
- Allow about 75 minutes for this section

Section III

Total Marks (20)

- Attempt Question 25
- Allow about 35 minutes for this section

Section IV

Total Marks (20)

- Attempt Question 26
- Allow about 35 minutes for this section

Section I

Total marks (20)

Use the multiple-choice answer sheet.

Select the alternative A, B, C or D that best answers the question. Fill in the response oval completely.

Sample $2 + 4 =$ (A) 2 (B) 6 (C) 8 (D) 9
A B C D

If you think you have made a mistake, put a cross through the incorrect answer and fill in the new answer.

A B C D

If you change your mind and have crossed out what you consider to be the correct answer, then indicate this by writing the word correct and drawing an arrow as follows:

A B C D
correct
↑

1. What would the effect of an increase in the minimum wage have on a labour market?

- (A) Demand for labour would increase with the wage
- (B) There would be a contraction in the supply of labour
- (C) There would be a contraction in the demand for labour
- (D) A shortage of labour would occur in the market

2. Questions 2 refers to the data from the Balance of Payments (BOP) for an economy.

BOP Component	\$ (Billion)
Exports	870
Imports	650
Net Services	160
Net Primary Income	-170
Net Secondary Income	20
Balance on Capital Account	25
Balance on Financial Account	?

What is the balance on the Financial Account (Billion) in this economy?

- (A) \$ 555
- (B) \$ -255
- (C) \$ 205
- (D) \$ -185

3. The table shows economic data for an economy.

Year	Real Gross Domestic Product (\$bill)	Consumer Price Index
Year 1	320	120
Year 2	336	132

Which of the following describes the economic conditions in this economy?

- (A) The economy is in recession
- (B) The rate of economic growth is higher than the rate of inflation
- (C) The rate of economic growth is lower than the rate of inflation
- (D) The rate of economic growth is the same as the rate of inflation

4. Which of the following is a characteristic of a deregulated labour market?

- (A) The use of industry-wide award agreements
- (B) The establishment of a tribunal to settle all disputes in workplaces
- (C) The removal of penalty rates for over-time work
- (D) An increase in the minimum wage

5. Which of the following is most likely to have caused a decrease in the Gini Coefficient in a developing economy?

- (A) An increase in foreign aid from developed nations
- (B) An increase in the migration of skilled labour to developed nations
- (C) A reduction in GDP per capita
- (D) A reduction in inflation

6. Which of the following economies will experience the largest increase in national income from the increase in investment?

	Marginal Propensity to Consume	Increase in Investment (\$mill)
(A)	0.5	500
(B)	0.75	300
(C)	0.8	400
(D)	0.9	150

7. Other things being equal, which of the following will cause an increase in capital inflow into an economy?

- (A) A fall in domestic economic growth
- (B) An increase in the exchange rate
- (C) A fall in overseas interest rates
- (D) An increase in the domestic rate of inflation

8. Why would a country maintain a fixed exchange rate below the market equilibrium determined by supply and demand on currency markets?

- (A) To improve the competitiveness of export industries
- (B) To reduce the cost of imported goods into the economy
- (C) To increase the cost for foreign companies to invest in the country
- (D) To reduce the value of their foreign debt in foreign currency terms

9. Which of the following is an existing multilateral trade agreement?

- (A) NAFTA
- (B) CERTA
- (C) AUSFTA
- (D) APEC

10. How are Australian workers' remittances of wages which are paid to family members living in another country recorded on Australia's balance of payments?

- (A) As a debit on the current account
- (B) As a credit on the current account
- (C) As a debit on the capital and financial account
- (D) As a credit on the capital and financial account

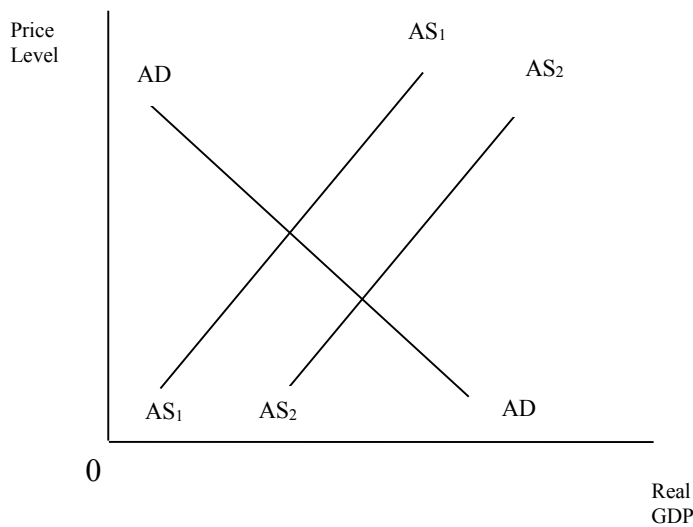
11. The table shows data for a nation's terms of trade.

Year	Export Price Index	Import Price Index
1	100	100
2	108	106
3	112	108

Which of the following statements about the nation's terms of trade (ToT) is correct?

- (A) The ToT deteriorated from Year 1 to 2 and then improved from Year 2 to 3
- (B) The ToT improved from Year 1 to 2 and then deteriorated from Year 2 to 3
- (C) The ToT deteriorated from Year 1 through to Year 3
- (D) The ToT improved from Year 1 through to Year 3

12. The graph shows aggregate demand and aggregate supply curves for an economy.



Other things being equal, which of the following is most likely to shift the aggregate supply curve from AS1 to AS2?

- (A) Reducing tax incentives for research and development
- (B) Increasing labour market regulations
- (C) Reducing company tax rates
- (D) Increasing interest rates

13. Which of the following is a trend in Australia's trading pattern over the past 50 years?

- (A) A move from trading with Pacific countries to trading with NAFTA
- (B) A switch away from trading with European and British markets to trading with Asia
- (C) A decrease in trade outside the Asia- Pacific region
- (D) New Zealand becoming Australia's chief export market

14. When does full employment occur?

- (A) When unemployment is zero
- (B) When cyclical unemployment is zero.
- (C) When frictional unemployment is zero.
- (D) When structural unemployment is zero

15. The Human Development Index (HDI) uses which of the following to measure development?

- (A) GDP per capita, life expectancy, inflation rate
- (B) GDP per capita, life expectancy, educational attainment
- (C) GDP per capita, death rate, educational attainment
- (D) Life expectancy, inflation rate, educational attainment

16. Ceteris paribus, when the RBA purchases government securities on the open market, it is an example of which of the following?

- (A) Expansionary Monetary Policy
- (B) Expansionary Fiscal Policy
- (C) Contractionary Monetary Policy
- (D) Contractionary Fiscal Policy

17. Which of the following is not a consequence of tariffs?

- (A) An increase in the cost of imported components
- (B) A misallocation of resources
- (C) A loss of export competitiveness
- (D) A loss of Government revenue

18. The table below shows selected data for an economy.

Year	Nominal GDP (\$Bn)	Consumer Price Index
1	1800	100
2	2000	105
3	2500	108

What is the value of real GDP in Year 3?

- (A) \$2000Bn
- (B) \$2315Bn
- (C) \$2500Bn
- (D) \$2057Bn

19. Which of the following is likely to increase export volumes for Australia?

	Economic activity in export markets	Australian Dollar
(A)	Recession	Depreciation
(B)	Upswing	Appreciation
(C)	Downswing	Appreciation
(D)	Upswing	Depreciation

20. The table below shows selected data for an economy.

Component	Year 1 (\$Bn)	Year 2 (\$Bn)
Exports	60	50
Saving	50	50
Imports	60	50
Taxation	180	185
Government spending	200	165
Investment	55	70

Which of the following statements is true for this economy?

(A)	Year 1 expanding	Year 2 equilibrium
(B)	Year 1 contracting	Year 2 expanding
(C)	Year 1 expanding	Year 2 contracting
(D)	Year 1 contracting	Year 2 equilibrium

Section II

Exam Number _____

Total marks (40)

Answer in the spaces provided.

Question 21 (10 marks)

Marks

a) Define the term Balance of Payments.

1

b) Outline TWO ways a fall in the Terms of Trade may affect Australia's Balance of Payments.

2

c) The table shows economic data for an economy.

Year	Net Foreign Equity (\$m)	Net Foreign Liabilities(\$m)	Gross Domestic Product (\$m)
Year 1	110,000	854,000	1,293,000
Year 2	113,500	877,000	1,317,000

Using the information from the table, calculate Net Foreign Debt as a percentage of Gross Domestic Product for Year 2.

1

-Question 21 continues over the page -

d) Explain the relationship between the Current Account Deficit (CAD) and the servicing cost of Net Foreign Debt.

2

e) Discuss how ONE macroeconomic policy and ONE microeconomic policy could be used to improve Australia’s external stability position.

4

- End of Question 21 -

a) Explain how TWO objectives of Australian government economic policy may conflict. **2**

b) Suggest and justify an appropriate policy mix to address a period of stagflation. **2**

c) What are time lags AND how can they impact on the effectiveness of Monetary and Fiscal Policy? **3**

- Question 22 continues over the page -

d) Briefly outline arguments for and against the use of centralised, decentralised and individualised methods of determining employment contracts.

3

End of Question 22

a) Identify TWO factors that would increase the pace of globalisation in the global economy. **2**

b) Discuss ONE implication for the Australian economy of reducing global trade protection. **2**

c) Outline the influence ONE government economic forum has recently had on the global economy. **2**

- Question 23 continues over the page -

d) Briefly explain what role TWO international organisations could play in improving global environmental sustainability.

4

- End of Question 23 -

a) The table below shows selected labour force data for an economy.

<i>Labour force statistics</i>	
Full-time employed persons	8,150,600
Part-time employed persons	3,510,000
Unemployed persons	700,400
Population of working age	18,987,711
Hidden unemployed persons	1,006,247

i) Using the information provided, calculate the size of the labour force. **1**

ii) Using the information provided, calculate the unemployment rate. **1**

iii) Using the information provided, calculate the labour force participation rate. **1**

- Question 24 continues over the page -

b) Distinguish between the causes of structural and cyclical unemployment. **2**

c) Explain what is meant by the Non-Accelerating Inflation Rate of Unemployment? **2**

d) Analyse TWO economic policies that will affect Australia's labour force participation rate. **3**

- End of Question 24 -

Section III

Total marks (20)

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

Question 25 (20 marks)

Analyse the role and importance of microeconomic reform to a competitive Australian economy.

In 2011-12, Australian Government budgetary outlays, tax concessions and import tariffs provided Australian industry with \$17.3 billion in assistance in gross terms, according to the latest annual review by the Productivity Commission.

After allowing for the cost impost of import tariffs on industries using goods as inputs, the net assistance received by industry was estimated at \$10.5 billion. The majority of this is budgetary outlays and tax concessions of around \$9.4 billion, while the net tariff component amounted to around \$1.1 billion.

The effective rate of assistance for manufacturing is around 4 per cent and 3 per cent for agriculture. The effective rate of assistance to the motor vehicles and textile, clothing and footwear industries at around 9 and 7 per cent respectively. Although much reduced over recent decades, these rates remains well above the average for manufacturing.

Australian Productivity Commission Trade and Assistance Review 2011-12
Released 12 June, 2013

Successive governments have been reluctant to undertake further micro reform for well over a decade. So if more micro reform is the key to faster productivity improvement don't expect to see much improvement

Ross Gittins 'Sorry, productivity isn't everything'
SMH July 15, 2013

Section IV

Total marks (20)

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 economic data
 - apply economic terms, concepts, relationships and theory
 - present a sustained, logical and well-structured answer to the question
-

Question 26 (20 marks)

Discuss the main factors that can cause changes in the value of Australia's exchange rate AND the impact of recent exchange rate movements on the Australian economy.

End of Paper

Shore 2013 Economics Trial HSC Exam

Multiple Choice Answers

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

Marking Guidelines

Q 21 GCA

Question	Marking Criteria	Marks
A Define the term Balance of Payments	Balance of Payments is a record of all international transactions and financial movements to and from an economy over a given period	1 for clear definition
B Outline TWO ways a fall in the Terms of Trade may affect Australia's Balance of Payments.	A fall in T of T results from a relative fall in X prices compared to M prices. This can affect the B of P through a rise in the CAD, or lead to a depreciation in the currency which impact upon the Financial Account through the amount of capital inflows and the Primary Income Account through debt servicing costs.	2 for TWO clear outlines 1 mark for ONE clear outlines or TWO weak outlines
C Using the information from the table, calculate Net Foreign Debt as a percentage of Gross Domestic Product for Year 2.	57.9%	1 for correct answer
D Explain the relationship between the Current Account Deficit (CAD) and the servicing cost of Net Foreign Debt.	CAD adds to the foreign debt by using foreign capital to pay for current transactions. This therefore creates a requirement to service that debt through interest payments which appear on the Current Account as Primary Income deficit.	2 for clear explanation 1 for general explanation
E Discuss how ONE macroeconomic policy and ONE microeconomic policy could be used to improve Australia's external stability position.	ONE macroeconomic policy which could be used to improve Australia's external stability is a reduced budget deficit which could lead to a lesser reliance on foreign capital therefore reducing our debt servicing ratio. ONE microeconomic policy could be structural adjustment of industry to broaden our export base to reduce the reliance on primary industry and its boom/bust cycles.	4 for clear discussion 3 for general discussion of both 2 for weak discussion of both 1 for poor discussion of both

Q22 GCA

Question	Marking Criteria	Marks
<p>A Explain how TWO objectives of Australian government economic policy may conflict.</p>	<p>A policy to increase economic growth might conflict with the objective of achieving price stability.</p>	<p>2 marks for clear explanation 1 mark for weak explanation</p>
<p>B Suggest and justify an appropriate policy mix to address a period of stagflation.</p>	<p>As appropriate policy mix to address stagflation (high inflation, high unemployment and low economic growth) would be microeconomic reform at improving efficiencies in industry through such things as greater competition, increased flexibility of labour usage and greater focus on wide and diverse global markets. Macroeconomic policy is limited in its effectiveness due to the conflicting nature of the objectives. E.g. low inflation and low unemployment/high economic growth. Some stimulatory policy could be used to try to lift growth, particularly if targeted at particular industries to encourage increased structural change and productivity growth.</p>	<p>2 marks for clear justification. 1 mark for general justification.</p>
<p>C What are time lags AND how can they impact on the effectiveness of Monetary and Fiscal Policy?</p>	<p>Time lags are the times taken between the implementation of a policy and when the final effects of the policy change are felt. As MP has such a long time lag (12-18 months), there are difficulties in forecasting economic conditions so far ahead, and the impact policy change might have. Fiscal policy has a shorter time lag but still is dependent on the quality of economic forecasting as a movement in expenditure or revenue measures might be inappropriate within a short time.</p>	<p>3 marks for clear explanation of both MP and FP lags. 2 marks for general explanation 1 mark for weak explanation.</p>
<p>D Briefly outline arguments for and against the use of centralised, decentralised and individualised methods of determining employment contracts.</p>	<p>Centralised is less flexible than decentralised which relies on agreement between employer and employee. Centralized generally provides greater equality of income distribution while less centralized provides scope for increases in productivity due to the rewarding of efficiency. Individualised contracts are between a single employee and his employer.</p>	<p>3 marks for clear outline. 2 marks for general outline 1 mark for weak outline</p>

Q 23 GCA

Question	Marking Criteria	Marks
A Identify TWO factors that would increase the pace of globalisation in the global economy.	Two factors that would increase the pace of globalisation would be a reduction in barriers to trade such as tariffs and reduced barriers to factor movement such as capital and labour.	2 marks for TWO 1 mark for ONE
B Discuss ONE implication for the Australian economy of reducing global trade protection.	Reduced global trade protection can increase exposure to Australian industry to global competition and also create opportunities for Australian industry to find further export markets.	2 marks for clear discussion 1 mark for general discussion
C Outline the influence ONE government economic forum has recently had on the global economy.	G20 or G7/8. Various policies and initiatives used.	2 marks for clear outline 1 mark for general outline
D Briefly explain what role TWO international organisations could play in improving global environmental sustainability.	WTO, World Bank, UN, OECD and IMF. Various policies and initiatives could be used.	4 marks for clear explanation of role of TWO 3 marks for more general explanation 2 marks for weak explanation of TWO or explanation of ONE 1 mark for weak explanation

Q24 MJW

Question	Marking Criteria	Marks
A Calculate i. Labour Force ii. Unemployment rate iii. LFPR	i. Labour Force = $8,150,600 + 3,510,000 + 700,400 = 12,361,000$ ii. Unemployment rate = $700,400/12,361,000 \times 100 = 5.67\%$ iii. LFPR = $12,361,000/18,987,711 \times 100 = 65.1\%$	1 for each correct calculation
B Distinguish between structural and cyclical unemployment	Structural – mismatch between jobs available and skills of workforce. Affected by education, training and experience Cyclical - influenced by the position of the economy in the business cycle – internationally and domestically	2 marks for clear distinction 1 mark for 1 clear identification
C Explain NAIRU	NAIRU – also referred to as the Natural Rate of Unemployment refers to the level of unemployment consistent with lower levels of inflation trade-off as per the Phillips Curve. Cyclical unemployment = 0. However, the augmented FP Phillips Curve suggests economic expansion (macro policy) will only temporarily reduce unemployment past this point and that the inflation rate will accelerate given the structurally unemployed will be the least productive if employed whilst wage and cost push pressure place accelerate inflation via inflationary expectations.	2 marks for clear explanation (with reference to inflation accelerating) 1 mark for general description
D Analyse 2 policies that will affect the LFPR	Policies that directly target the LFPR were better options <ul style="list-style-type: none"> • Access to Age Pension (67 not 65) and Superannuation incentives (increase SGL) to keep potential retirees in the workforce at retiring age • Labour market training/educ programs to avoid labour market hysteresis and increases in hidden unemployment – also, disability programs • MER such as lifting the tax free threshold and reducing tax burden = incentive • Paid paternity schemes that encourage women/men back into the workforce and provision of child care facilities or rebates on care • Flexible IR regulation allowing flexibility at work to meet family commitments <p>Note: Macro Policy is ST demand policy and counter cyclical – not a great choice!</p>	3 marks for best choices well analysed 2 marks for 2 choices explained 1 mark for 1 choice explained