



2016
Trial Higher School Certificate
Examination
ECONOMICS

Date: Thurs 11th August (AM)

Outcomes Assessed: All

General Instructions

- Reading Time: **5 minutes**
- Working Time: **3 hours**
- Write using **black pen**.
- Write your **candidate number** on the top of each page (or front of each booklet).
- **All** work and this question paper to be collected in **one** bundle.
- Board-approved calculators **may** be used.

Structure of Paper & Instructions

- **Total Marks: 100**
- **Section I (20 marks):**
Answer all questions in the Answer Booklet provided. Select the alternative A, B, C or D that most fully and correctly answers the question.
- **Section II (40 marks):**
Answer all questions in the Answer Booklet provided.
- **Section III (20 marks):**
Attempt one question from this section. Answer this question after carefully reading the stimulus material.
- **Section IV (20 marks):**
Attempt one question from this section.

CHECKLIST

Each boy should have the following:
1 Question Paper
1 Multiple Choice & Short Answer Booklet
2 Writing Booklets

SPACE BELOW IS BLANK AND MAY BE USED FOR PLANNING

SECTION I

20 marks

Attempt questions 1 - 20

Spend no more than 35 mins for this section

Use the multiple-choice answer sheet on the front page of the Answer Booklet for Questions 1 - 20

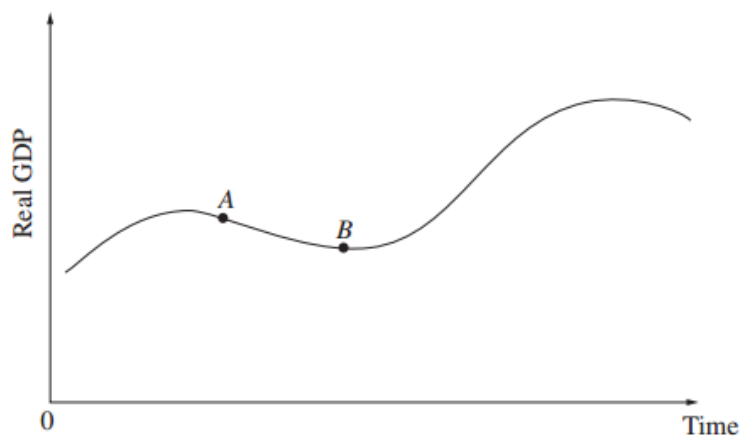
1. Which institution would intervene in a dispute between two countries over the payment of subsidies to agricultural producers?

- (A) The World Trade Organisation.
- (B) The International Monetary Fund.
- (C) The United Nations.
- (D) The World Bank.

2. Which of the following increases trade between economies?

- (A) Higher global tariffs.
- (B) Lower global economic growth.
- (C) Higher global subsidies.
- (D) Fewer global quotas.

3. The following graph shows a business cycle for an economy:



Which combination of economic policies would cause the economy to move from A to B?

	Govt Spending	Taxation	Cash Rate
(A)	Rise	Fall	Fall
(B)	Rise	Rise	Rise
(C)	Fall	Rise	Rise
(D)	Fall	Rise	Fall

4. In a 3 sector economy with an initial equilibrium income of \$100bn, which of the following combinations is possible following an increase in investment of \$10bn?

	Marginal Propensity to Consume	Multiplier	New Equilibrium Income
(A)	0.4	2.5	\$125bn
(B)	0.5	2	\$20bn
(C)	0.2	1.25	\$112.5bn
(D)	0.1	10	\$200bn

5. The following data shows some trade information for an economy:

	Change
Import Prices	+10%
Export Prices	+8%

What is the most likely immediate impact of the changes in trade prices?

- (A) An increase in foreign debt.
 (B) A decrease in primary income credits.
 (C) An improvement in the terms of trade.
 (D) An increase in the current account deficit.

6. The table below shows balance of payments data for a nation:

Component	Year 1	Year 2
Exports of Goods	\$100 bn	\$60 bn
Imports of Goods	\$110 bn	\$70 bn
Net Services	-\$20 bn	-\$30 bn
Net Primary Income	-\$80 bn	-\$85 bn
Net Secondary Income	\$10bn	-\$5 bn
Capital Account	\$20 bn	\$30 bn
Financial Account	\$75 bn	\$90 bn

Assuming a floating exchange rate, which of the following statements is true?

- (A) The Balance on Goods and Services improved between Year 1 and Year 2.
 (B) Net Errors & Omissions is larger in Year 2 than in Year 1.
 (C) The Current Account Deficit decreased between Year 1 and Year 2.
 (D) The change in the Capital Account between Year 1 and Year 2 could be attributed to foreigners receiving \$10 bn more in unconditional aid from Australia, ceteris paribus.

7. Which economic objectives would a government find it most difficult to achieve simultaneously?

- (A) Fall in unemployment and an increase in economic growth.
- (B) Sustainable economic growth and low inflation.
- (C) High economic growth and environmental sustainability.
- (D) A more even distribution of income and an increase in employment.

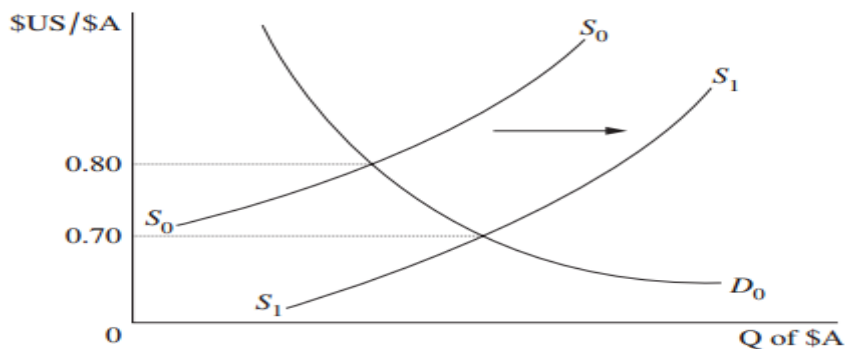
8. The table below shows selected data from an economy for a one year period:

Government Spending	Exports	Taxation	Imports	Consumer Spending	Investment	Savings
\$40 billion	\$100 billion	\$30 billion	\$120 billion	\$200 billion	\$180 billion	\$190 billion

Which of the following statements is consistent with this data?

- (A) The economy is likely to grow in the following year.
- (B) There is a trade surplus of \$20 billion.
- (C) The government has a budget surplus of \$10 billion.
- (D) Aggregate demand is \$400 billion.

9. The following diagram shows changes in the demand for and supply of Australian dollars in the foreign exchange market:



Assuming a floating exchange rate, which of the following would most likely cause the exchange rate to move from U\$0.80 to U\$0.70?

(A)	Lower domestic interest rates	Lower level of imports
(B)	Higher domestic interest rates	Less investment from overseas
(C)	RBA sells Australian dollars	Greater level of exports
(D)	Australians investing more overseas	Higher profits for Australian mining companies

10. Which of the following changes would make an income tax more progressive?
- (A) A reduction in the tax-free threshold.
 (B) An increase in the number of tax brackets.
 (C) A decrease in the marginal rate in the top tax bracket.
 (D) Raising the tax rate paid on capital gains.
11. Following an unexpected increase in economic growth from 1% to 3%, what are the most likely impacts on the Federal Budget and the stance of Fiscal Policy, *ceteris paribus*?

	Impact on the Federal Budget	Stance of Fiscal Policy
(A)	Increase in welfare spending	Expansionary
(B)	Increase in income tax revenue	Contractionary
(C)	Decrease in welfare spending	Expansionary
(D)	Decrease in income tax revenue	Contractionary

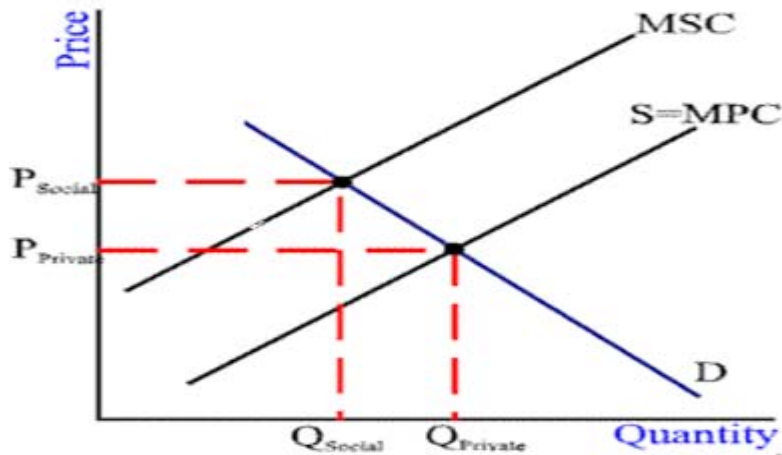
12. Which of the following is an advantage of joining a free trade agreement?
- (A) Better access to lowest cost producers of goods.
 (B) Increased assistance to import-competing producers.
 (C) An improvement in the terms of trade.
 (D) An appreciation of the exchange rate.
13. Which of the following will cause a short term increase in the rate of unemployment?
- (A) An increase in casual employment.
 (B) A fall in the rate of hidden unemployment.
 (C) A fall in the labour force underutilisation rate.
 (D) An increase in high school retention rates.
14. The following table shows data associated with a country's past financial transactions with the rest of the world:

Gross Domestic Product	Shares sold overseas	Foreign shares purchased	Borrowings from overseas	Lending to foreigners
\$800 billion	\$400 billion	\$300 billion	\$500 billion	\$200 billion

What is the value of net foreign debt as a percentage of GDP?

- (A) 37.5%.
 (B) 50%.
 (C) 12.5%.
 (D) 62.5%.

15. The following graph represents the demand and supply curves for a particular good, which causes a deterioration in air quality when it is produced (Note: MSC = Marginal Social Cost and MPC = Marginal Private Cost):



How could the government ensure that the social optimum level of production is achieved?

- (A) Legislate for a free market for the good.
- (B) Ban production of the good.
- (C) Impose an indirect tax on the good.
- (D) Allocate grants to the producers of the good.

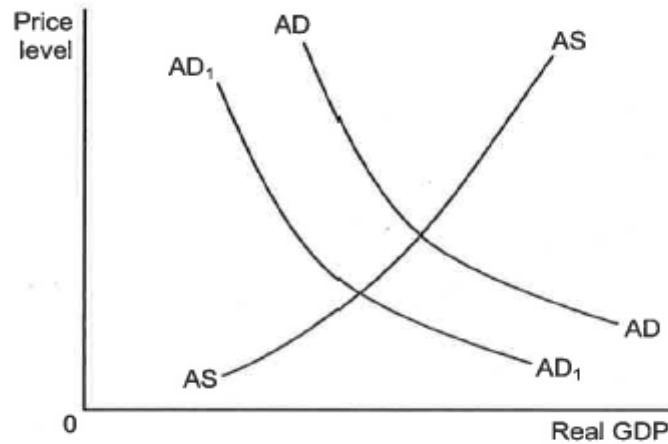
16. The table below gives selected data for a country:

<i>Year</i>	<i>% change in real output on previous year</i>	<i>Consumer Price Index</i>	<i>Employed persons (millions)</i>	<i>Unemployed persons (millions)</i>
1	4.6	105	54.0	5.5
2	3.1	110	54.5	5.8
3	0.6	113	54.0	6.0
4	3.1	120	55.0	5.5
5	4.2	129	57.0	4.8

What action would be most appropriate for years 3 -5?

- (A) Increased government expenditure.
- (B) Lower taxation.
- (C) Higher minimum wage.
- (D) Selling second hand Commonwealth Government Securities.

17. The following diagram shows aggregate demand and aggregate supply curves for an economy:



Which of the following factors is least likely to have caused the shift in the aggregate demand curve from AD to AD₁, ceteris paribus?

- (A) A fall in business investment.
- (B) A decrease in government spending on welfare payments.
- (C) Lower interest rates.
- (D) A rise in imports.

18. The following table shows selected economic data for a country:

Year	Consumer Price Index (CPI)	Working Age Population ('000)	Number Unemployed ('000)	Labour Force ('000)
1	100	3000	90	2000
2	106	3100	80	2100
3	118	3500	85	2200

Which statements are correct for this economy as it moves from Year 2 to Year 3?

	Impact on the Labour Force Participation Rate	Impact on the Inflation Rate
(A)	Decreased	Increased to 11.3%
(B)	Increased	Increased to 11.3%
(C)	Decreased	Increased to 12%
(D)	Increased	Increased to 12%

19. How would the Australian Federal Government meet its financial obligations when it has planned to spend more than it will receive in the current financial year?
- (A) Raise the rate of the Goods & Services Tax.
 - (B) Reduce its expenditure on welfare.
 - (C) Both (A) and (B).
 - (D) Issue Commonwealth Government Securities.
20. Which of the following would increase the size of the multiplier in an economy?
- (A) An increase in investment.
 - (B) An increase in consumer confidence.
 - (C) An increase in interest rates.
 - (D) An increase in government spending.

END OF SECTION I

SECTION II 40 marks

The questions for Section II are contained in the Answer Booklet
Please complete in the spaces provided
Marks for each part of the question are as indicated
Spend no more than 1 hour and 15 minutes on this section

The questions for Sections III & IV are on the following pages
Please complete in separate writing booklets

SECTION III

20 marks

Attempt EITHER Question 25 OR Question 26

Allow at least 35 minutes for this question

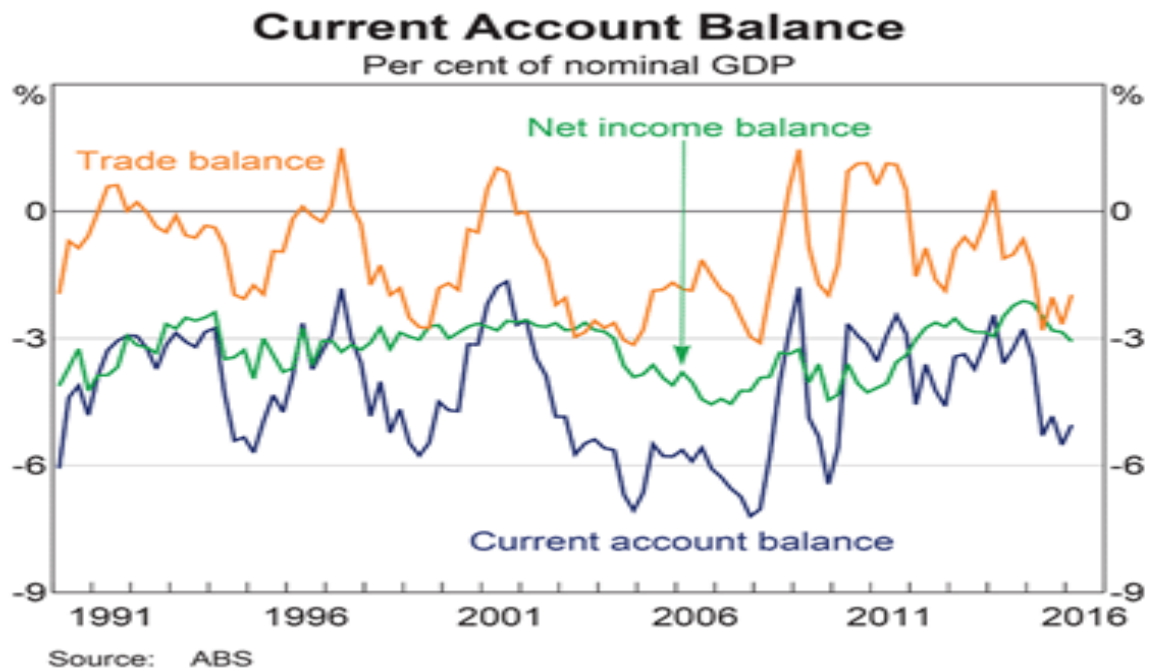
Answer your chosen question in a Writing Booklet

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

- Demonstrate knowledge and understanding relevant to the question
- Use the information provided
- Apply relevant economic terms, concepts, relationships and theory
- Present a sustained, logical and cohesive response

EITHER

25. Examine the causes and consequences of recent changes in Australia's current account deficit

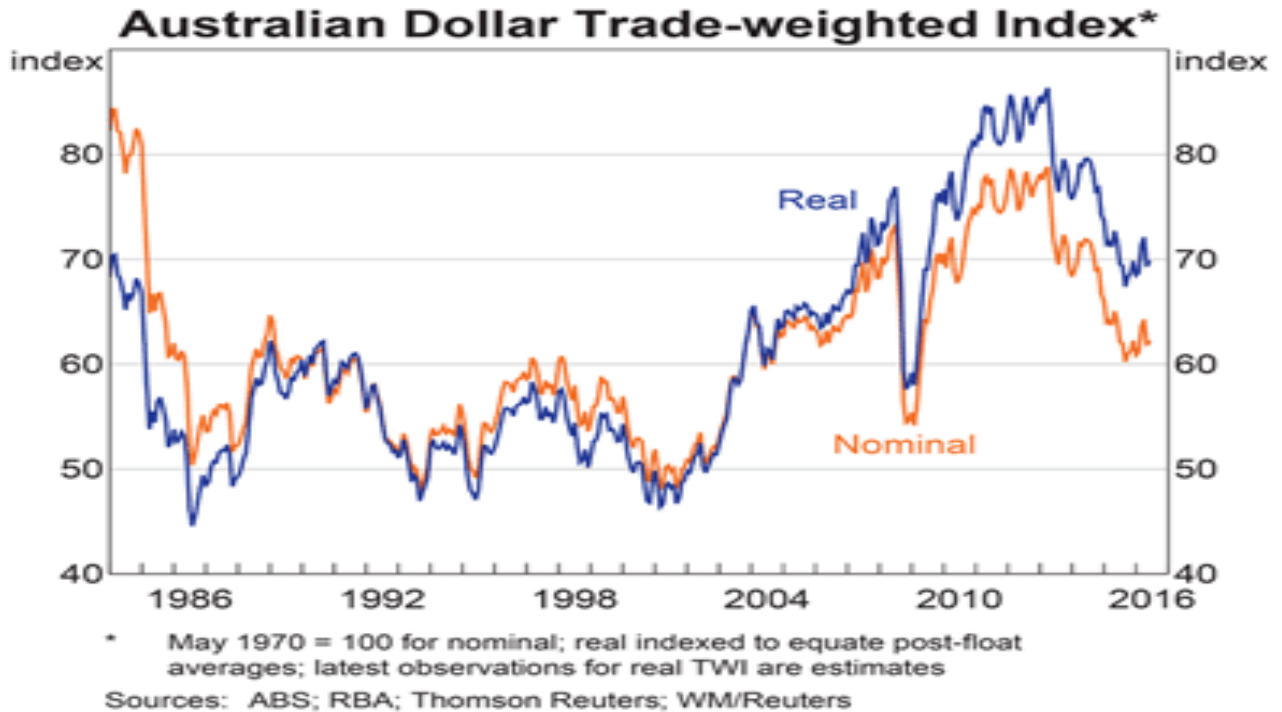


‘Australia’s CAD averaged 4.6% in the 2000s and has since remained one of the highest in the industrialised world. The size and movements of its main components are influenced, to varying degrees, by both cyclical and structural factors. The extent to which a high CAD remains a problem is a matter of ongoing debate among economists.’

Dixon, *Leading Edge 2016* (Adapted)

OR

26. Examine the causes and consequences of recent changes in Australia's exchange rate.



Just as market forces establish the equilibrium price for a good, they can also determine the equilibrium price of the Australian dollar in terms of another country's currency. The late 2000s saw one of the most volatile periods for the Australian dollar since it was floated and this has had both positive and negative effects on the Australian economy.'

Dixon, *Leading Edge 2016* (Adapted)

END OF SECTION III

SECTION IV IS OVERLEAF

SECTION IV

20 marks

Attempt EITHER Question 27 OR Question 28

Allow at least 35 minutes for this question

Answer your chosen question in a separate Writing Booklet

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

- Demonstrate knowledge and understanding relevant to the question
- Apply relevant economic terms, concepts, relationships and theory
- Present a sustained, logical and cohesive response

EITHER

27. Analyse the effectiveness of recent policies used to influence Australia's inflation rate.

OR

28. Analyse the effectiveness of recent policies used to influence Australia's unemployment rate.

END OF THE EXAMINATION

**SGS 2016 TRIAL HSC ECONOMICS
ANSWER BOOKLET FOR SECTIONS I AND II**

Candidate Number:

SECTION I

(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

(16) A B C D

(17) A B C D

(18) A B C D

(19) A B C D

(20) A B C D

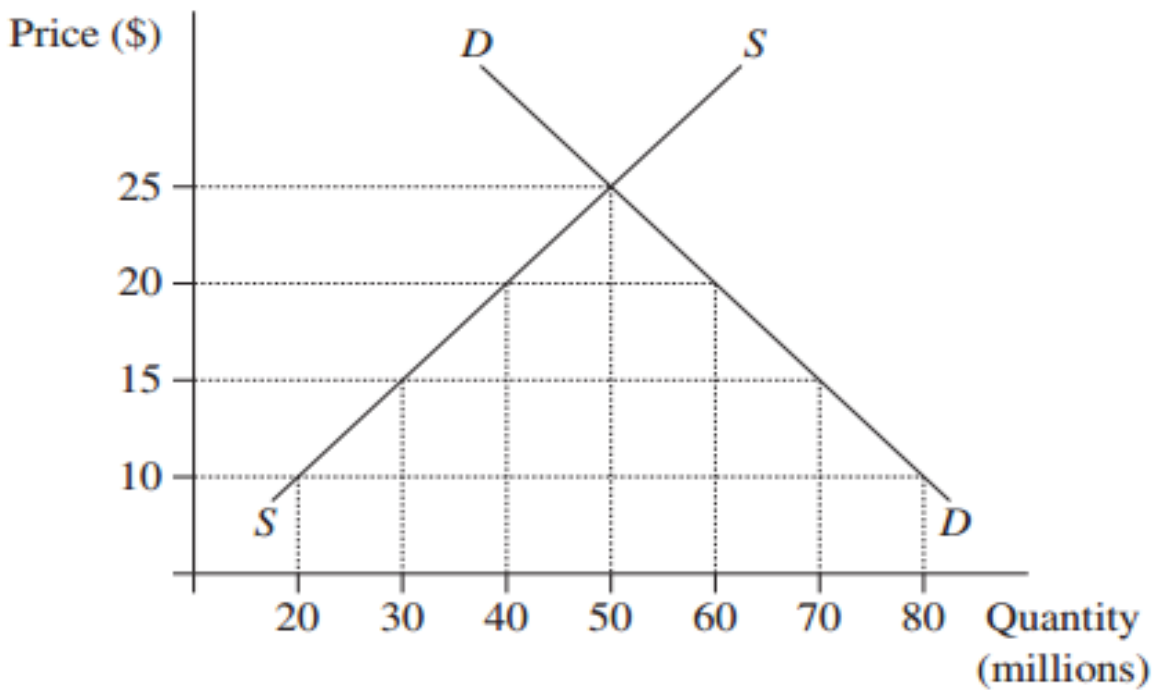
SECTION II

40 marks

Marks for each part of the question are indicated
Spend no more than 1 hour and 15 minutes on this section
Answer the questions in the spaces provided below

Question 21 (10 marks)

Refer to the graph below which shows the domestic demand and supply schedules for a particular good in a country operating with free trade:



(a) At a world price of \$25, what would be the level of income for foreign producers? (1 mark)

.....

(b) At a world price of \$20, how much would the country import? (1 mark)

.....

(c) **On the diagram above**, draw the impact of a subsidy which gives the country complete protection at a world price of \$20. (1 mark)

(d) What would be the per unit subsidy required? (1 mark)

.....

(e) Outline TWO disadvantages associated with such a subsidy. (2 marks)

.....

.....

.....

.....

.....

(f) Discuss the impacts of reduced protection on individuals in the Australian economy. (4 marks)

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

Question 22 (10 marks)

(a) Define *microeconomic reform*. (1 mark)

.....

.....

.....

Question 22 continues on next page

(b) Outline THREE efficiencies which microeconomic reform is intended to address. (3 marks)

.....

.....

.....

.....

.....

.....

.....

.....

(c) Outline TWO problems associated with microeconomic reforms. (2 marks)

.....

.....

.....

.....

.....

(d) Explain TWO significant microeconomic reforms that have been introduced by the Australian Federal Government since the GFC. (4 marks)

.....

.....

.....

.....

.....

Continue Question 22 (d) on next page

.....
.....
.....
.....
.....

Question 23 (10 marks)

This question is based on the table below:

Gini Coefficient (Income)	Country A	Country B
2014	0.45	0.30
2015	0.40	0.35

- (a) What does this Gini co-efficient measure? (1 mark)

.....
.....

- (b) Which country is most likely to have introduced a Goods and Services tax at the start of 2015, ceteris paribus? (1 mark)

.....

- (c) With specific reference to policies announced in the 2016/17 Federal Budget, explain TWO likely changes to Australia's distribution of income or wealth. (4 marks)

.....
.....
.....
.....
.....
.....
.....
.....

Continue Question 22 (c) on next page

.....
.....
.....

- (d) With specific reference to a country other than Australia, account for the changes to that country's distribution of income in recent times. (4 marks)

Chosen Country:

.....

.....
.....
.....
.....
.....
.....
.....
.....
.....
.....
.....

Question 24 (10 marks)

- (a) What is a negative externality? (2 marks)

.....
.....
.....
.....

Question 24 continues on next page

(b) With reference to TWO Australian examples, explain why the environment could be regarded as a case of 'market failure'? (4 marks)

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

(c) Explain how recent international agreements and targets have shaped Australia's policies for environmental sustainability. (4 marks)

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

END OF SECTION II

SECTIONS III & IV ARE BACK ON THE QUESTION PAPER

SPACE BELOW IS BLANK AND MAY BE USED FOR PLANNING