

Economics

General Instructions

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

Total marks – 100

Section I Pages 2–10

20 marks

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

Section II Pages 13–23

40 marks

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

Section III Pages 25–26

20 marks

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

Section IV Page 27

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

Use the multiple-choice answer sheet for Questions 1–20.

- 1** Assume that foreign producers are selling canned tomatoes in Australia at below their cost of production. Domestic producers ask the government to impose a tariff on these imports.

What is the most likely reason for this request?

- (A) To prevent dumping
 - (B) To improve national defence
 - (C) To support an infant industry
 - (D) To maintain domestic employment
- 2** Which of the following economic policies has the shortest time lag for implementation?
- (A) Fiscal policy
 - (B) Monetary policy
 - (C) Labour market policies
 - (D) Microeconomic reform
- 3** Which of the following is most likely to increase gross world product?
- (A) Increased rates by central banks
 - (B) Increased migration to developing countries
 - (C) Increased protection by advanced economies
 - (D) Increased investment by transnational corporations in developing countries
- 4** Which of the following could be a negative impact of foreign direct investment in an emerging economy?
- (A) Increased provision of public goods
 - (B) Increased spending on transport infrastructure
 - (C) An increase in the country's Human Development Index from 0.6 to 0.8
 - (D) An increase in the influence of transnational corporations on government regulation

5 Australia provides foreign aid to build schools in a developing country.

This will be entered in Australia's Balance of Payments as a

- (A) debit in the capital account.
- (B) credit in net primary income.
- (C) credit in the financial account.
- (D) debit in net secondary income.

6 A government wants to increase the efficiency of its domestic industries in order to improve their international competitiveness.

Which combination of trade policies would be most likely to achieve this?

	<i>Import quota</i>	<i>Subsidy to domestic producers</i>
(A)	Decrease	Decrease
(B)	Increase	Increase
(C)	Increase	Decrease
(D)	Decrease	Increase

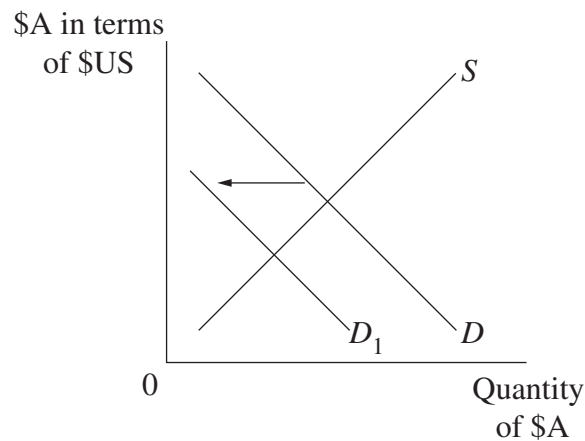
7 The table shows Gross Domestic Product (GDP) growth, inflation and unemployment rate data for an advanced economy with an inflation target of 2–3%.

<i>Year</i>	<i>GDP growth (%)</i>	<i>Inflation (%)</i>	<i>Unemployment rate (%)</i>
1	4.0	2.7	5
2	4.5	3.8	4.5

With reference to the data in the table, which policy response would be best for this economy?

- (A) Expansionary fiscal and expansionary monetary policy
- (B) Expansionary fiscal and contractionary monetary policy
- (C) Contractionary fiscal and expansionary monetary policy
- (D) Contractionary fiscal and contractionary monetary policy

- 8 Which of the following is most likely to operate as an automatic stabiliser during an upswing in the Australian economy?
- (A) Income tax
 (B) Company tax
 (C) Tariff revenue
 (D) Goods and services tax
- 9 The diagram shows changes in the demand for, and supply of, Australian dollars (\$A).



Which of the following statements is most likely to explain the change in the equilibrium value of the \$A illustrated in the diagram?

- (A) The \$A has appreciated because of an increase in demand for Australian exports.
 (B) The \$A has depreciated because of reduced microeconomic reform in the US economy.
 (C) The \$A has appreciated because of a rise in the number of overseas tourists visiting Australia.
 (D) The \$A has depreciated because of a rise in foreign interest rates relative to Australian interest rates.

10 The table shows data for a hypothetical economy.

<i>Year</i>	<i>Import price index</i>	<i>Export price index</i>	<i>Trade weighted index</i>
1	100	100	60
2	110	100	70

What is the effect of the changes from Year 1 to Year 2 on the terms of trade and international competitiveness of this economy?

	<i>Terms of trade</i>	<i>International competitiveness</i>
(A)	Increased	Decreased
(B)	Decreased	Decreased
(C)	Increased	Increased
(D)	Decreased	Increased

11 Which of the following government policies would be most likely to reduce an economy's Gini coefficient?

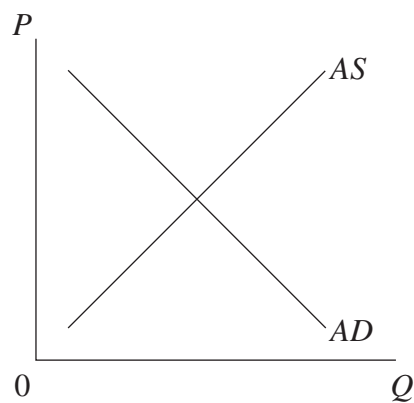
- (A) A decrease in the goods and services tax rate and a decrease in transfer payments
- (B) A decrease in expenditure on health and an increase in deregulation of the labour market
- (C) An increase in childcare subsidies for low-income earners and an increase in the highest marginal income tax rate
- (D) An increase in the income tax free threshold and a decrease in compulsory employer superannuation contributions

- 12 A firm invests in a new, environmentally sustainable method for recycling used aluminium soft drink cans.

Which of the following best describes the likely economic outcome that will result from this innovation?

- (A) A positive externality and a reduction in social costs
- (B) A negative externality and an increase in social costs
- (C) A positive externality and a reduction in social benefits
- (D) A negative externality and an increase in social benefits

- 13 The graph shows aggregate demand (AD) and aggregate supply (AS) curves for an economy.



Which of the following is most likely to reflect government policy designed to increase efficiency and equilibrium output?

- (A) AS curve shifts to the left.
- (B) AD curve shifts to the left.
- (C) AS curve shifts to the right.
- (D) AD curve shifts to the right.

14 The table shows labour market data for a hypothetical economy.

<i>Year</i>	<i>Unemployment rate</i>	<i>Participation rate</i>
1	7%	65%
2	5%	60%

Which of the following reasons would account for these changes from Year 1 to Year 2?

	<i>Reason for change in the unemployment rate</i>	<i>Reason for change in the participation rate</i>
(A)	Global economic recession	A reduction in the number of skilled migrants
(B)	Fewer incentives to hire the long-term unemployed	Increased job training for the unemployed
(C)	Increased government spending on infrastructure	An increase in childcare subsidy payments
(D)	Increased consumer confidence	Increase in school retention rates

15 Which of the following could lead to a deterioration in the structural component of Australia's current account deficit?

- (A) An increase in net foreign liabilities
- (B) A decrease in portfolio investment by foreign firms
- (C) A decrease in export volumes due to a weakening global economy
- (D) An increase in imports resulting from an improvement in the terms of trade

16 The table refers to a hypothetical economy.

<i>Year</i>	<i>National income</i> (\$)	<i>Savings</i> (\$)
1	1000	400
2	1500	500
3	2000	600

If the government wishes to raise the level of national income by \$1000 in Year 4, by how much will it have to increase investment?

- (A) \$100
- (B) \$200
- (C) \$500
- (D) \$800

17 The Reserve Bank of Australia purchases Commonwealth Government Securities in order to alter the cash rate.

Which of the following is the most likely result of this decision?

	<i>Australian dollar</i>	<i>Australian GDP</i>
(A)	Appreciates	Falls
(B)	Depreciates	Falls
(C)	Depreciates	Rises
(D)	Appreciates	Rises

- 18 The table contains nominal data on the components of Gross Domestic Product (GDP) for a hypothetical economy.

<i>Year</i>	<i>C</i>	<i>I</i>	<i>G</i>	<i>X</i>	<i>M</i>
1	500	200	300	100	100
2	550	250	300	200	200

Assume that the consumer price index for this economy increases from 100 in Year 1 to 110 in Year 2.

What is the growth rate of real GDP in Year 2?

- (A) 0%
 - (B) 1%
 - (C) 10%
 - (D) 14%
- 19 The table refers to a hypothetical economy.

<i>Year</i>	<i>Headline inflation (%)</i>	<i>Underlying inflation (%)</i>
1	2	1.7
2	2.4	1.4
3	3.2	1.2

Which combination of reasons is most likely to account for changes in the headline and underlying inflation rates from Year 1 to Year 3?

	<i>Reason for change in headline inflation</i>	<i>Reason for change in underlying inflation</i>
(A)	Decreased global oil production	Expansionary fiscal policy
(B)	Flooding in agricultural areas	Increased microeconomic reform
(C)	Increased tariffs	Increased minimum wage
(D)	Increased global oil production	Appreciation of the domestic currency

- 20 The table shows Balance of Payments data for a hypothetical economy with a flexible exchange rate.

	<i>\$ Billion</i>
Financial Derivatives	5
Net Primary Income	-200
Direct Investment	50
Reserve Assets	10
Balance on Goods and Services	50
Net Secondary Income	25
Portfolio Investment	45
Capital Account	?

Using the data above, what is the value of the capital account?

- (A) \$15 billion deficit
- (B) \$15 billion surplus
- (C) \$25 billion deficit
- (D) \$25 billion surplus

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Centre Number

Section II

40 marks

Attempt Questions 21–24

**Allow about 1 hour and 15 minutes
for this section**

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Student Number

Answer the questions in the spaces provided. These spaces provide guidance for the expected length of response.

Extra writing space is provided on pages 22 and 23. If you use this space, clearly indicate which question you are answering.

Write your Centre Number and Student Number at the top of this page.

Please turn over

Do NOT write in this area.

Question 21 (10 marks)

- (a) Distinguish between renewable and non-renewable resources. **2**

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- (b) For an economy other than Australia, outline ONE impact of globalisation on its environmental sustainability. **3**

Name of economy:

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Question 21 continues on page 15

Do NOT write in this area.

Question 21 (continued)

- (c) Explain how market-based policies can be used to address market failure in relation to environmental management.

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End of Question 21

Question 22 (10 marks)

- (a) Australia's budget deficit is projected to decrease from 2.5% of GDP to 2.1% of GDP. **2**

Explain ONE possible reason for this change.

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- (b) Compare the impact of TWO different methods of financing a budget deficit on domestic interest rates in the Australian economy. **4**

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Question 22 continues on page 17

Question 22 (continued)

- (c) Analyse how ONE possible strategy to reduce the budget deficit could affect income distribution.

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End of Question 22

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Question 23 (10 marks)

- (a) How is the measurement of the unemployment rate in Australia influenced by hidden unemployment? **2**

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- (b) How would an appreciation of the US dollar relative to the Australian dollar affect inflation in Australia? **3**

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Do NOT write in this area.

Question 23 continues on page 19

Question 23 (continued)

- (c) A country's economy is operating at the non-accelerating inflation rate of unemployment (NAIRU). 5

What are the policy implications of this for the country's government if its aim is to reduce unemployment?

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End of Question 23

Question 24 (10 marks)

(a) How does the international division of labour contribute to globalisation?

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Question 24 continues on page 21

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Question 24 (continued)

- (b) Explain TWO reasons why economies experience different levels of economic development.

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Do NOT write in this area.

End of Question 24

Section II extra writing space

If you use this space, clearly indicate which question you are answering.

Do NOT write in this area.

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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 the Sections III and IV Writing Booklet. Extra writing booklets are available.

Your answer 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

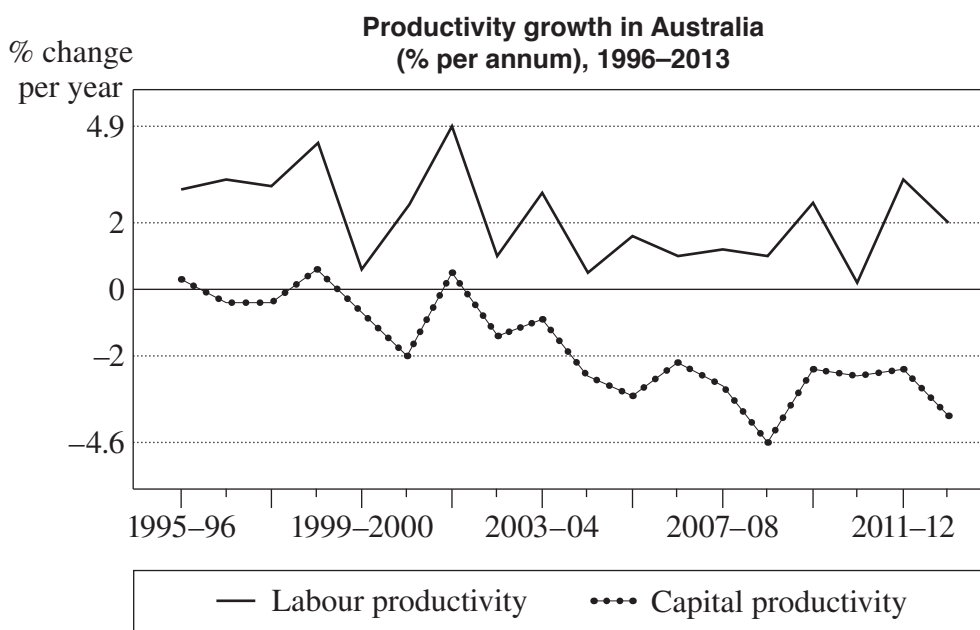
Question 25 (20 marks)

Discuss the continuing role of microeconomic reform in achieving Australia’s economic objectives. In your response, you should refer to the economic information provided.

There are many areas of the economy that are still in need of reform. The provision of public services in health, education, utilities and transport come to mind. I do worry that without the motivation to reform that we had in the 1980s, we risk moving too slowly . . . On the labour market for instance . . . it is critical to our future success that we be willing to change where that is sensible.

Source: Australian Government, The Treasury

December 2014



Based on Australian Bureau of Statistics data

OR

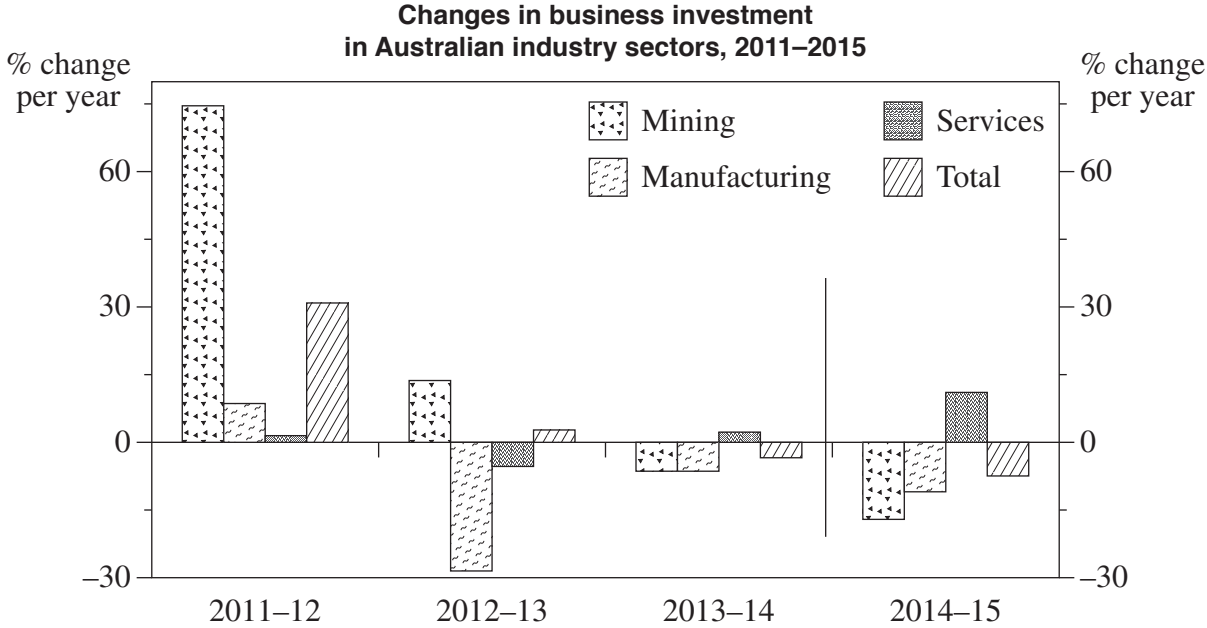
Question 26 (20 marks)

Analyse the changing sources of economic growth and their effects on the Australian economy. In your response, you should refer to the economic information provided.

The Australian economy needs to shift to broader sources of growth ... a key risk of below-trend growth is that the economy will not generate enough jobs growth to [employ] new entrants to the labour market.

November 2014

Source: Australian Government, The Treasury



Data previews: Aus 2014/15 & 2015/16 Capex Expectations. CAPEX PLANS by Industry. Reproduced with permission by Westpac Institutional Bank.

Section IV

20 marks

Attempt either Question 27 or Question 28

Allow about 35 minutes for this section

Answer the question in the Sections III and IV Writing Booklet. Extra writing booklets are available.

Your answer will be assessed on how well you:

- demonstrate knowledge and understanding relevant to the question
 - apply relevant economic information, terms, concepts, relationships and theory
 - present a sustained, logical and cohesive response
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Question 27 (20 marks)

Discuss the contributions of international organisations and trade agreements to global economic growth and development.

OR

Question 28 (20 marks)

Analyse how macroeconomic policy can be used to achieve external stability in the Australian economy.

End of paper

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