

**B O A R D O F S T U D I E S**  
NEW SOUTH WALES

**2007**

**HIGHER SCHOOL CERTIFICATE  
EXAMINATION**

# Economics

## General Instructions

- Reading time – 5 minutes
- Working time – 3 hours
- Write using black or blue pen
- Board-approved calculators may be used
- Write your Centre Number and Student Number at the top of pages 9, 13, 15 and 17

**Total marks – 100**

**Section I** Pages 2–8

**20 marks**

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

**Section II** Pages 9–20

**40 marks**

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

**Section III** Pages 21–22

**20 marks**

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

**Section IV** Page 23

**20 marks**

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

## Section I

20 marks

Attempt Questions 1–20

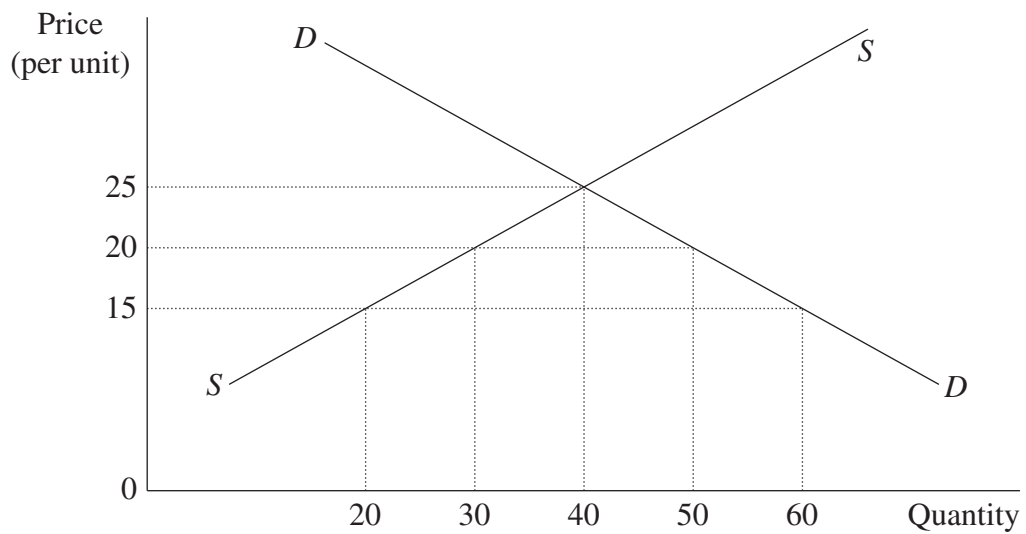
Allow about 35 minutes for this section

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

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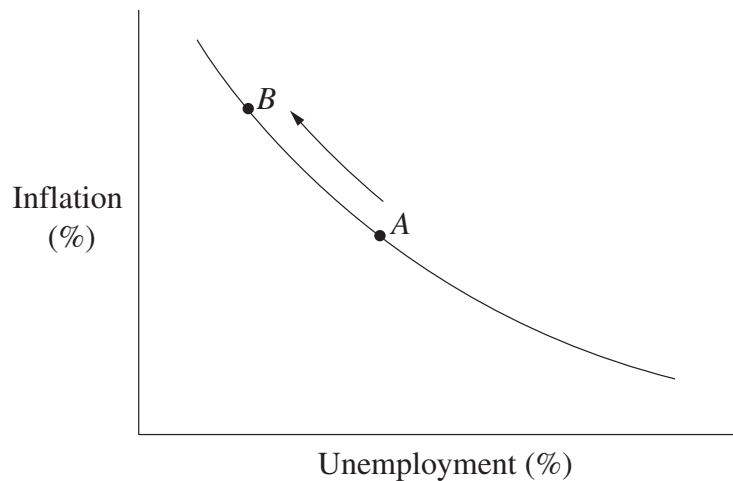
- 1 What would limit the globalisation process among nations?
  - (A) Increases in the number of free trade agreements
  - (B) Increases in the flow of direct foreign investment
  - (C) Increases in the volume of trade flows
  - (D) Increases in protection levels
  
- 2 Which of the following people are not included in the Australian labour force for statistical purposes?
  - (A) People who are injured and on leave receiving workers compensation
  - (B) People over 15 years of age but only working one hour per week
  - (C) Self-employed people working in family run businesses
  - (D) Full-time students over 15 years of age
  
- 3 An increase in which of the following would shift the aggregate supply curve to the right?
  - (A) Wage rates
  - (B) Immigration
  - (C) Interest rates
  - (D) Energy prices
  
- 4 Which economic objectives often conflict with one another?
  - (A) Economic growth and external balance
  - (B) Economic growth and full employment
  - (C) Low inflation and international competitiveness
  - (D) Low unemployment and a more equitable distribution of income

- 5 The diagram shows the effects of a tariff. The curve  $SS$  is the supply from domestic producers and the curve  $DD$  is the demand from domestic consumers. The duty free price is \$15 and the government imposed tariff is \$5.



- Which statement is correct?
- (A) The government receives \$100 in tariff revenue and domestic production of this product increases.
- (B) The government receives \$100 in tariff revenue and domestic production of this product decreases.
- (C) The government receives \$50 in tariff revenue and domestic production of this product increases.
- (D) The government receives \$50 in tariff revenue and domestic production of this product decreases.
- 6 What is a possible reason for the unemployment rate remaining high, despite increased levels of economic activity?
- (A) Increased levels of aggregate supply
- (B) Decreased levels of labour productivity
- (C) Increased rates of hidden unemployment
- (D) Increased labour force participation rates
- 7 What might lead to a reduction of a budget surplus?
- (A) An increase in tax rates
- (B) An increase in economic activity
- (C) An increase in transfer payments
- (D) Privatisation of a public enterprise

- 8 Other things being equal, what could be a likely consequence if the Reserve Bank of Australia lowered interest rates?
- (A) There would be an increase in capital outflows, the supply of the Australian dollar would increase and this could lead to a depreciation of the currency.
  - (B) There would be an increase in capital inflows, the demand for the Australian dollar would increase and this could lead to an appreciation of the currency.
  - (C) There would be an increase in capital outflows, the supply of the Australian dollar would decrease and this could lead to a depreciation of the currency.
  - (D) There would be an increase in capital inflows, the demand for the Australian dollar would decrease and this could lead to an appreciation of the currency.
- 9 The diagram shows the relationship between inflation and unemployment for a hypothetical economy.



What would move the economy from A to B?

- (A) Increased levels of interest rates and increased income tax rates
- (B) Increased levels of capital expenditure and decreased income tax rates
- (C) Decreased levels of consumer expenditure and decreased levels of exports
- (D) Decreased levels of government expenditure and increased levels of imports

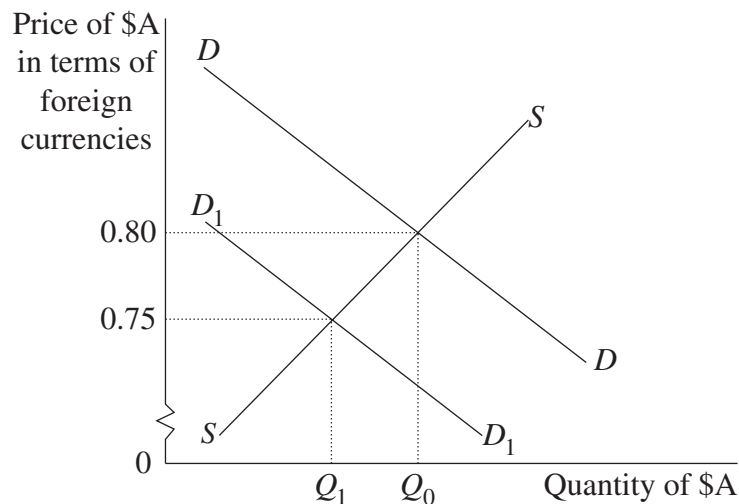
10 The table shows selected data for a hypothetical economy.

| Year | Consumer price index (CPI) | Total population ('000) | Number unemployed ('000) | Labour force ('000) |
|------|----------------------------|-------------------------|--------------------------|---------------------|
| 1    | 100                        | 3000                    | 80                       | 1000                |
| 2    | 106                        | 3100                    | 70                       | 1100                |
| 3    | 118                        | 3500                    | 60                       | 1200                |

From Year 2 to Year 3 which statement is correct for this economy?

- (A) The inflation rate has increased to 12% and the unemployment rate has decreased.
- (B) The inflation rate has increased to 12% and the unemployment rate has increased.
- (C) The inflation rate has increased to 11.3% and the unemployment rate has decreased.
- (D) The inflation rate has increased to 11.3% and the unemployment rate has increased.

11 The diagram shows the demand for and supply of Australian dollars.



Other things being equal, what would be the effects of a movement of the demand curve for Australian dollars from  $DD$  to  $D_1D_1$ ?

- (A) Australia's international competitiveness would decrease and capital inflow would be encouraged as domestic assets are less expensive.
- (B) Australia's international competitiveness would decrease and capital outflow would be encouraged as domestic assets are more expensive.
- (C) Australia's international competitiveness would increase and capital inflow would be encouraged as domestic assets are less expensive.
- (D) Australia's international competitiveness would increase and capital outflow would be encouraged as domestic assets are more expensive.

- 12 The Marginal Propensity to Consume (MPC) for an economy is 0.8. An increase in investment leads to an increase in national income of \$250m.

Other things being equal, what is the value of the increase in investment?

- (A) \$50m  
(B) \$150m  
(C) \$200m  
(D) \$312.5m
- 13 Which of the following could be recorded as a credit in the current account of the Australian balance of payments?
- (A) Expenditure on imports  
(B) Interest paid to Australian lenders  
(C) Dividends paid to foreign investors  
(D) Foreign aid from the Australian government for capital works in Thailand
- 14 The table shows selected data for a hypothetical economy.

| <i>Year</i> | <i>Export price index</i> | <i>Import price index</i> |
|-------------|---------------------------|---------------------------|
| 1           | 100                       | 100                       |
| 2           | 110                       | 105                       |
| 3           | 130                       | 140                       |

Which statement is correct for this economy?

- (A) In Year 2 import prices rose faster than export prices.  
(B) In Year 3 export prices rose faster than import prices.  
(C) In Year 3 a given volume of exports will buy a larger volume of imports.  
(D) In Year 3 a given volume of exports will buy a smaller volume of imports.

- 15** Which statement best illustrates the difference between the effects of a tariff on imports and a subsidy on domestic production?
- (A) A tariff increases the price of the imported good and a subsidy may decrease the supply of the domestic good.
  - (B) A tariff increases the price of the imported good and a subsidy may increase the supply of the domestic good.
  - (C) A tariff decreases the price of the imported good and a subsidy may increase the supply of the domestic good.
  - (D) A tariff decreases the price of the imported good and a subsidy may decrease the supply of the domestic good.
- 16** If a major trading partner of Australia experienced a significant appreciation of its currency, what would be the likely effect in Australia?
- (A) International competitiveness with this country would decline.
  - (B) Imported inflation from this country would decline.
  - (C) Imports from this country would be less expensive.
  - (D) Terms of trade with this country would decline.
- 17** Which policy is consistent with the preservation of the natural environment?
- (A) Tax incentives that encourage increased coal production
  - (B) Lower tariffs on imported cars with larger engine capacities
  - (C) Water prices that increase with the amount of water consumed
  - (D) A subsidy to the forestry industries that is directly proportional to the number of trees felled
- 18** Which statement best describes the operation of monetary policy in comparison to the operation of fiscal policy?
- (A) Monetary policy is slower to implement and is less effective in controlling inflation.
  - (B) Monetary policy is faster to implement and is more effective in controlling inflation.
  - (C) Fiscal policy is slower to implement but is more effective in controlling inflation.
  - (D) Fiscal policy is faster to implement but is less effective in controlling inflation.

- 19** What is a possible benefit to the Australian economy of micro economic reform?
- (A) Increases in social security payments
  - (B) Increases in tariff protection for Australian producers
  - (C) Increases in the market share of dominant firms in Australian markets
  - (D) Increases in household savings through superannuation and tax incentives
- 20** Other things being equal, what will be the impact of an increase in domestic interest rates?
- (A) Economic activity decreases and the exchange rate depreciates.
  - (B) Economic activity decreases and the exchange rate appreciates.
  - (C) Economic activity increases and the exchange rate depreciates.
  - (D) Economic activity increases and the exchange rate appreciates.



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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)

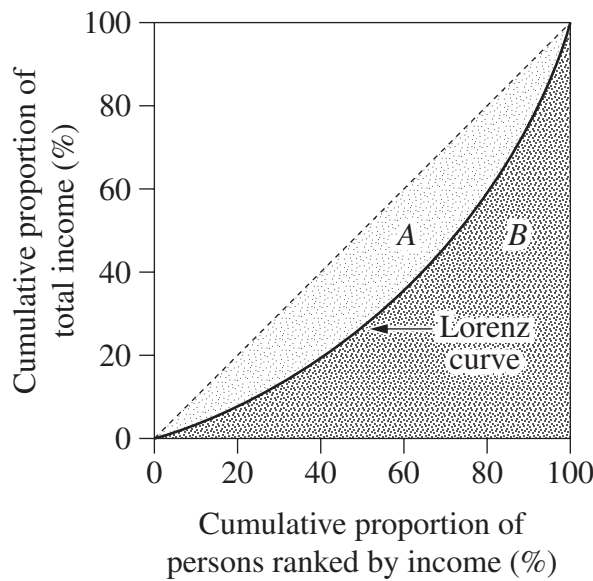
(a) What does the Lorenz curve measure?

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The diagram shows a Lorenz curve for an economy.



(b) State the formula for the Gini coefficient using the areas denoted by A and B.

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Question 21 continues on page 10

Question 21 (continued)

The table shows Gini coefficient data for Australia.

| <i>Year</i> | <i>Gini coefficient<br/>(pre-tax)</i> | <i>Gini coefficient<br/>(after-tax)</i> |
|-------------|---------------------------------------|---|
| 1970        | 0.310                                 | 0.250                                   |
| 1980        | 0.278                                 | 0.201                                   |
| 1990        | 0.338                                 | 0.254                                   |
| 2000        | 0.383                                 | 0.279                                   |

- (c) Use the pre-tax Gini coefficient data to identify the changes over time for income inequality. 2

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- (d) Briefly explain why the after-tax Gini coefficient is lower than the pre-tax Gini coefficient. 2

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**Question 21 continues on page 11**

Question 21 (continued)

- (e) Discuss how TWO taxation changes have affected the distribution of income in Australia. **4**

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**End of Question 21**

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Section II (continued)

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**Marks**

**Question 22** (10 marks)

- (a) Outline TWO causes of inflation in Australia. **2**

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- (b) Explain the process the Reserve Bank uses to tighten monetary policy in Australia. **3**

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**Question 22 continues on page 14**

Question 22 (continued)

(c) Analyse the effects of a tightening of monetary policy on the level of economic activity in Australia.

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Section II (continued)

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Student Number

**Marks**

**Question 23** (10 marks)

- (a) Outline TWO economic indicators of the globalisation process. **2**

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- (b) Explain why globalisation has increased international financial flows. **3**

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**Question 23 continues on page 16**

**Question 23 (continued)**

- (c) Explain the economic reasons for differences in the standard of living between two nations. **5**

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**End of Question 23**



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Section II (continued)

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Student Number

**Marks**

**Question 24** (10 marks)

- (a) Define *private costs* and *social costs*. **2**

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- (b) Describe TWO essential characteristics of a *public good*. **2**

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**Question 24 continues on page 18**

Question 24 (continued)

(c) Discuss ONE economic method that a government may use to reduce pollution. **3**

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**Question 24 continues on page 19**

Question 24 (continued)

The recent drought experience in Australia highlights the degree of market failure in the allocation of scarce resources. For example, current water prices do not reflect real economic or social costs.

- (d) Explain how market failure causes the misallocation of scarce resources in Australia. 3

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**End of Question 24**

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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 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)

Discuss the impact of sustained fiscal surpluses on resource use and economic activity in the Australian economy.

The federal budget has moved from deficit to surplus. The on-going savings have changed the government debt burden and allowed changes in government spending and taxation.

#### Australian Government Budget Indicators

| Year      | Fiscal balance |          | Net government debt |          |
|-----------|----------------|----------|---------------------|----------|
|           | \$ billion     | % of GDP | \$ billion          | % of GDP |
| 2000–2001 | 5.6            | 0.8      | 42.7                | 6.2      |
| 2001–2002 | –3.4           | –0.5     | 38.0                | 5.2      |
| 2002–2003 | 4.7            | 0.6      | 29.7                | 3.8      |
| 2003–2004 | 4.8            | 0.6      | 23.4                | 2.8      |
| 2004–2005 | 10.8           | 1.2      | 11.5                | 1.3      |
| 2005–2006 | 16.0           | 1.7      | –4.8                | –0.5     |

Australian Government *Budget Paper*, no. 1, 2006–07, Statement 13

Copyright Commonwealth of Australia

**OR**

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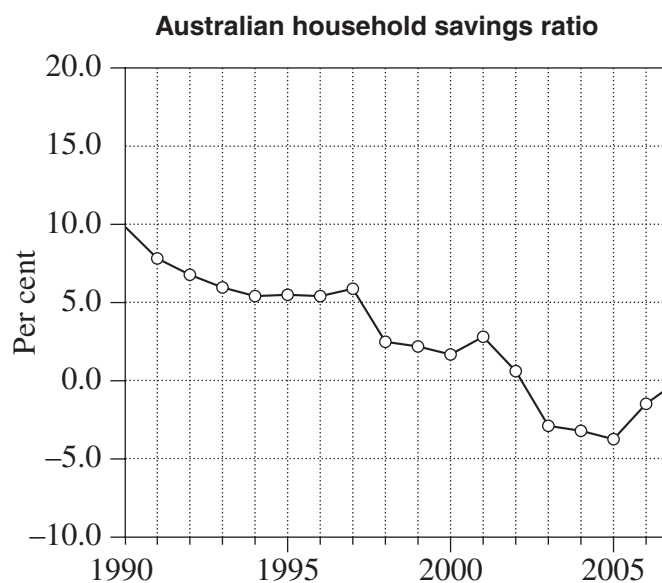
In your answer you will be assessed on how well you:

- 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
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**Question 26** (20 marks)

Discuss the economic implications for the Australian economy of Australia's continuing current account deficits.

There are opposing views about the effect of Australia's continuing current account deficit. While some argue that Australians are spending beyond their means, others believe the current account deficit reflects Australia's increasing productive capacity.



## **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.

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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 27** (20 marks)

Explain how Australia's labour market policies have affected work practices and employment.

**OR**

**Question 28** (20 marks)

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

**End of paper**

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