BOARD OF STUDIES
NEW SOUTH WALES

2001
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, 11, 13 and 15

Total marks – 100

(**Section I**) Pages 2–8

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

(**Section II**) Pages 9–16

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

(**Section III**) Pages 17–19

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

(**Section IV**) Page 20

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.

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 the correct answer by writing the word *correct* and drawing an arrow as follows.

correct

A ✖   B ✖   C ◯   D ◯

1   Which one of the following is an example of structural unemployment?

(A)   The skills of the unemployed do not match the skills required in available jobs.

(B)   There is a time lapse between entering the workforce and gaining employment.

(C)   There is a rise in the rate of unemployment as the rate of inflation falls.

(D)   The unemployed no longer seek work because of a fall in the job market.

2   If the Consumer Price Index for Year 1 is 180 and for Year 2 is 198, what is the inflation rate in Year 2?

(A)   10%

(B)   18%

(C)   80%

(D)   98%

3   Which of the following indicates an expansionary fiscal policy?

(A)   Lower interest rates and increased government expenditure

(B)   Higher interest rates and reduced government expenditure

(C)   Higher tax rates and reduced government expenditure

(D)   Lower tax rates and increased government expenditure

4   **Selected economic data for Australia**

Year	$US per $A	Trade Weighted Index
1	0.64	61
2	0.58	62
3	0.51	64

Over the period Year 1 to Year 3, which statement is correct?

(A)   The Australian dollar depreciated against both the US dollar and the Trade Weighted Index.

(B)   The Australian dollar appreciated against the US dollar and depreciated against the Trade Weighted Index.

(C)   The Australian dollar depreciated against the US dollar and appreciated against the Trade Weighted Index.

(D)   The Australian dollar appreciated against both the US dollar and the Trade Weighted Index.

5 Which situation is normally associated with cost inflation?

(A) Aggregate demand exceeds aggregate supply.

(B) Labour productivity increases.

(C) A nation's foreign exchange rate appreciates.

(D) The general level of wages increases.

6 Which of the following would be likely to occur if the Australian dollar depreciates significantly against the currencies of its trading partners?

(A) A fall in the quantity of goods exported from Australia

(B) An increase in the quantity of goods imported into Australia

(C) An increase in imported inflation into Australia

(D) A fall in the cost of travelling overseas from Australia

7   **Selected economic data for a nation**

Year	Change in Gross Domestic Product (%)	Employment (millions)	Unemployment rate (%)
1	3.5	16.7	7.0
2	4.5	18.7	7.4

What could explain the change in the unemployment rate from Year 1 to Year 2?

(A) A fall in the number of job vacancies advertised

(B) An increase in the labour force participation rate

(C) An increase in the level of hidden unemployment

(D) A fall in the level of economic activity

8 Other things being equal, what will be the resulting increase in income for an economy that has a marginal propensity to consume of 0.6, if investment increases by $10 million?

(A) $6 million

(B) $10 million

(C) $25 million

(D) $60 million

9   The diagram illustrates the impact of a tariff.
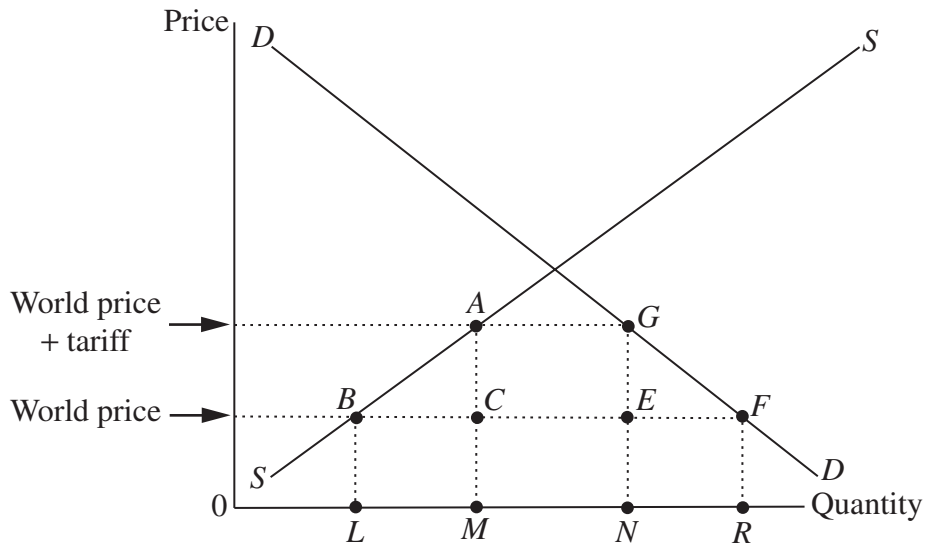
Which of the following areas would represent government revenue raised from this tariff?

(A)   *BLRF*

(B)   *ACEG*

(C)   *AMNG*

(D)   *ABFG*

10   **Selected economic data for a nation**

Savings (S)	$450 m	Investment (I)	$300 m
Taxation (T)	$100 m	Government expenditure (G)	$350 m
Imports (M)	$150 m	Exports (X)	$200 m

Which of the following statements is correct about this economy?

(A)   Economic activity is increasing and the budget is in surplus.

(B)   Economic activity is increasing and the budget is in deficit.

(C)   Economic activity is decreasing and the budget is in surplus.

(D)   Economic activity is decreasing and the budget is in deficit.

11   **Selected economic data for a nation**

BALANCE OF PAYMENTS	
	$m
Current Account	
Goods credit	300
Goods debit	450
Net Services	–360
Net Income	?
Capital and Financial Account balance	+1300

What is the value of Net Income?

(A)   –$790 m

(B)   –$510 m

(C) $190 m

(D) $910 m

12   Why does the market system generally fail to produce public goods?

(A)   The Government controls the prices and distribution of public goods.

(B)   The benefits of public goods cannot be restricted to those who purchase them.

(C)   Public goods tend to be those goods that are privatised by the Government.

(D)   Consumers do not have adequate purchasing power to buy public goods.

13   Which of the following describes enterprise bargaining?

(A)   Increases in wages are tied to improvements in national productivity.

(B)   Decisions on wage increases are determined by industrial tribunals each year.

(C)   Wage increases in the workplace are determined by workers and management.

(D)   Changes in the cost of living automatically determine wage movements.

14 The following diagram shows the demand for and the supply of the Australian dollar in the foreign exchange market.
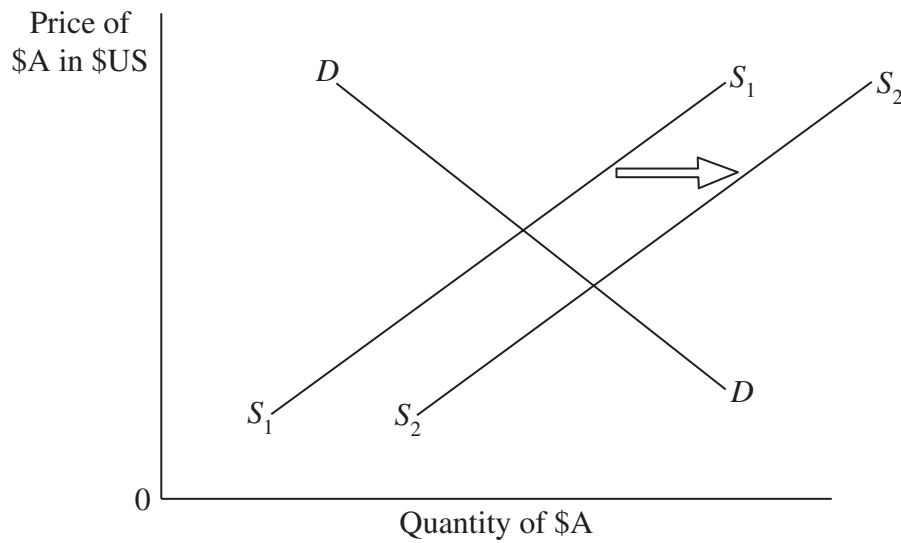
Which one of the following is likely to cause a shift in the supply curve from S_1 to S_2?

(A) More Australians travelling to the United States

(B) More United States residents visiting Australia

(C) Increased sales of exports to the United States

(D) Increased subsidies to Australia's export industries

15 Other things being equal, what will happen if tariff protection for an Australian industry is reduced?

(A) The price of the industry's product to the domestic consumer will increase.

(B) Competing foreign products will be more expensive in the Australian market.

(C) Employment in the Australian industry will increase in the short term.

(D) The domestic market share for the Australian industry will decrease.

16 An Australian firm located in Australia makes an interest only repayment on an overseas loan. How would this interest repayment be recorded in Australia's Balance of Payments?

(A) As a debit on the Australian current account

(B) As a credit on the Australian current account

(C) As a debit on the Australian capital and financial account

(D) As a credit on the Australian capital and financial account

17 Which measure could be implemented by a government attempting to improve environmental management?

(A) A reduction in the cost of petrol production

(B) An increase in tax concessions for using solar energy

(C) An increase in incentives for coal production

(D) The replacement of renewable resources by non-renewable resources

18 Which government policy is likely to reduce the inequality of income distribution?

(A) Decreasing the level of tax rates for high income earners

(B) Increasing the tax-free threshold on income

(C) Increasing the level of tax on essential services

(D) Decreasing the level of tax on luxury items

19 The following diagram shows aggregate demand and aggregate supply curves for a nation.
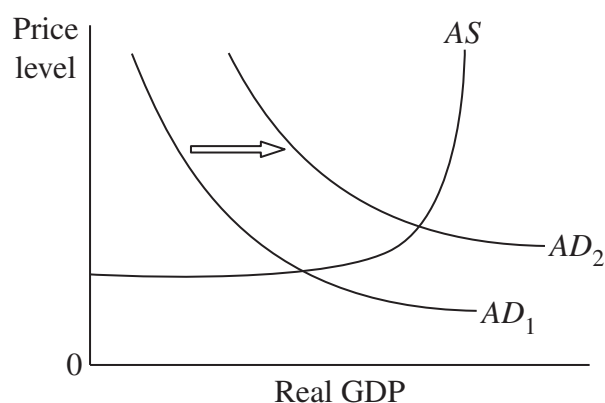
What could cause a shift of the aggregate demand curve from AD_1 to AD_2?

(A) A fall in government spending on goods and services

(B) A rise in government spending on goods and services

(C) A rise in per unit production costs

(D) A fall in per unit production costs

20 What is the most common measure of economic growth?

(A) Changes in nominal Gross Domestic Product per person

(B) Net foreign debt as a percentage of Gross Domestic Product

(C) Changes in real Gross Domestic Product per annum

(D) The distribution of Gross Domestic Product among the population

Economics

Centre Number

Student Number

Section II

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)

The following information concerns trade and protection within the global economy.

> During the last three decades of the twentieth century many nations have dismantled their protection of domestic industries in the movement towards global free trade. However, this movement has not been without its critics. Opponents of free trade claim that removing protection has been harmful to the growth of domestic economies.

(a)   Outline ONE method that nations can use to protect domestic industries.   **1**

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(b)   Discuss TWO reasons why nations might protect their domestic industries.   **2**

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Question 21 continues on page 10

– 9 –

Question 21 (continued)

(c) Describe TWO economic effects that the protection of domestic industries has   **2**
     on global trade.

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(d) Analyse the economic benefits and costs to Australia associated with increased   **5**
     free trade.

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End of Question 21

Section II (continued)

Marks

Question 22 (10 marks)

The diagram shows two possible Lorenz curves for a nation.
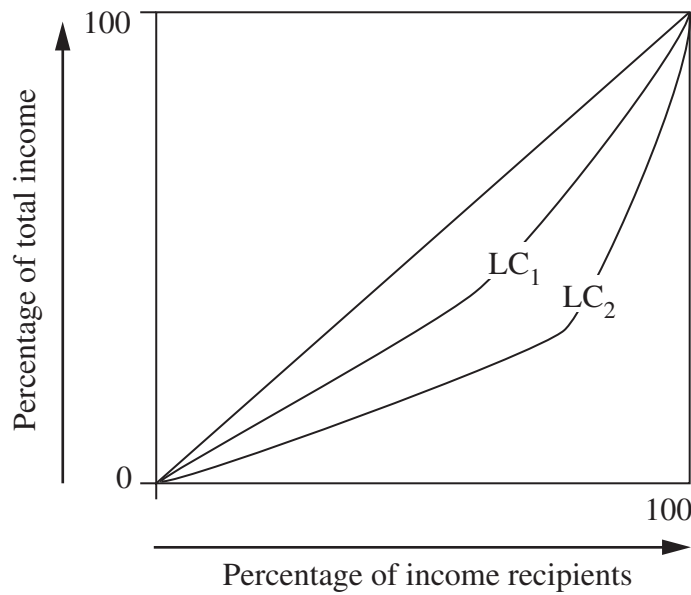
(a)   What is a *Lorenz curve*?   **1**

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(b)   In the diagram, which Lorenz curve (LC_1 or LC_2) has the greater Gini   **1**
       coefficient?

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Question 22 (continued)

(c) Which of the two Lorenz curves indicates the more equitable distribution of income? Give a reason for your answer.

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(d) Outline TWO reasons that could explain inequality of income within a nation.

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(e) Analyse the economic and social costs that arise from the inequality of income distribution within a nation.

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End of Question 22

Section II (continued)

Marks

Question 23 (10 marks)

The following information concerns environmental issues.

> There is no immediate shortage of basic non-renewable resources. Even at current rates of consumption there is enough copper, iron and fossil fuels to last centuries. More pressing is the concern that the water cycle and the composition of the atmosphere are on the verge of destruction. Yet the powerful myth that more production and greater consumption equals progress, remains firmly entrenched.

(a) Define *ecologically sustainable development*. **1**

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(b) Describe how economic activity can have a negative impact on the environment. **2**

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Question 23 continues on page 14

Question 23 (continued)

(c) Distinguish between renewable and non-renewable resources. Give an example   **3**
of each to support your answer.

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(d) Explain ONE economic benefit and ONE economic cost associated with   **4**
achieving ecologically sustainable development.

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End of Question 23

Centre Number

Student Number

Section II (continued)

Marks

Question 24 (10 marks)

(a)   State an example of a government policy designed to promote microeconomic reform in Australia.   **1**

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(b)   State ONE reason why governments implement policies of microeconomic reform.   **1**

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(c)   Explain how microeconomic policy can bring about structural change in Australia.   **4**

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149

– 15 –

Question 24 (continued)

(d)   Explain TWO problems associated with microeconomic reform in Australia.   **4**

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End of Question 24

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)

Please turn over

– 17 –

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 policy options the Australian Government can use to achieve external stability.

Australia — Balance of Payments — Current Account **($A million)**			
	1997/98	**1998/99**	**1999/2000**
Exports	88 538	85 687	97 476
Imports	–92 084	–98 427	–110 807
Net Services	–1 192	–1 870	–1 849
Net Income and Current Transfers	–18 080	–19 106	–18 497
Current Account Balance	**–22 818**	**–33 716**	**–33 677**

Reserve Bank Bulletin, October 2000

The Board of The Reserve Bank of Australia remains firmly of the view that the economy's medium-term growth prospects are very good, but recognises that two risks to short-term growth exist. The first comes from the weaker world economy. Against this, the exchange rate gives a major competitive edge to the traded sector. The second risk is that confidence could weaken in such a way as to further dampen domestic demand in the short term. The Board views it as prudent for monetary policy to help support domestic demand under such circumstances.

Adapted from media release, *Reserve Bank of Australia*, April 2001

OR

Question 26 (20 marks)

Discuss policy options the Government can use to promote and maintain economic growth in Australia.

> '. . . there is overwhelming evidence to suggest that countries can only have sustained expansions if they are accompanied by low inflation. It is the *sustainability* of the expansion which is the key to maximising economic growth and employment. Thus, another way of expressing the aims of a monetary policy based on inflation-targeting is to say that its aim is to maximise the length of the economic expansion.'
>
> I. J. MACFARLANE, Governor of the Reserve Bank
> *Reserve Bank Bulletin*, October 2000

> Most microeconomic reform is designed to improve economic efficiency, and there has been a longstanding expectation that the reform undertaken in the Australian economy would lead to an improvement in productivity growth. The evidence from the 1990s is that this improvement seems to have occurred. . . . Measures of labour and multifactor productivity for the business cycle expansion of the 1990s show stronger growth than for any comparable period since the 1960s.
>
> *Reserve Bank Bulletin*, October 2000

Commonwealth Government Budget
($ million)

	1997/98	1998/99	1999/2000
Total revenues	136 969	146 444	169 921
Total expenses	135 784	140 814	160 408
	1 185	**5 630**	**9 513**

Reserve Bank Bulletin, October 2000

Please turn over

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

Question 27 (20 marks)

Analyse the impact of globalisation on the economic performance of the Australian economy.

OR

Question 28 (20 marks)

Analyse the impact that globalisation has had on economic development strategies in an economy other than Australia.

End of paper