



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

2003

**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 17–18

20 marks

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

Section IV Page 19

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.

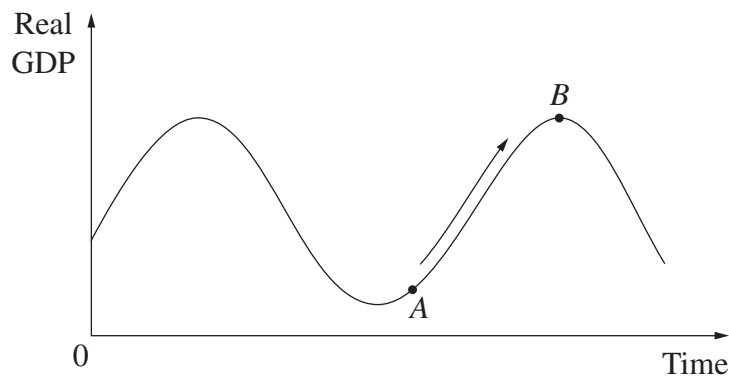
A B C D

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.

A B C D
correct ↙

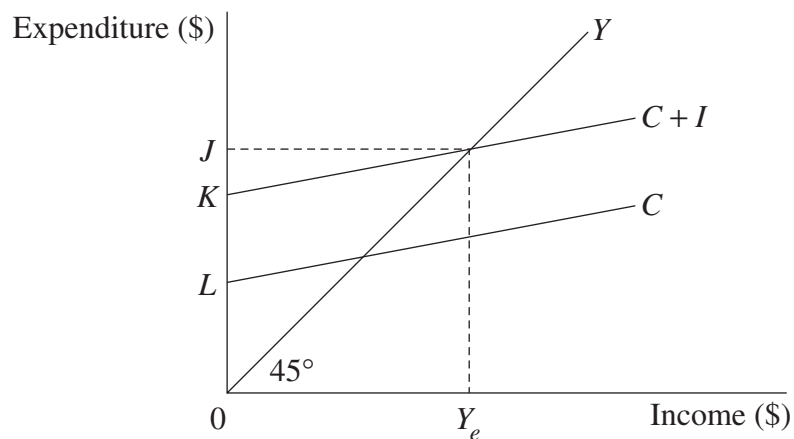
- 1** Which of the following would increase Australia's international competitiveness?
- (A) An increase in Australian tariffs
 - (B) An increase in Australian wage rates
 - (C) A decrease in inflation in Australia
 - (D) A decrease in imports to Australia
- 2** Which of the following is a likely effect of a subsidy?
- (A) The price of exported items will rise.
 - (B) Resource allocation will be more efficient.
 - (C) The supply from local producers will increase.
 - (D) Inflation will increase due to more expensive imports.
- 3** Which of the following is a feature of Australian workplace agreements?
- (A) They apply to all workers within an industry.
 - (B) They are organised by unions who automatically become part of the agreement.
 - (C) They are individually negotiated and administered by the Employment Advocate.
 - (D) They require that a majority of the employees agree to the terms and conditions.
- 4** Which of the following could be a consequence of an increase in real Gross Domestic Product?
- (A) An increase in consumption and an increase in taxation revenue
 - (B) A decrease in consumption and a decrease in taxation revenue
 - (C) An increase in consumption and a decrease in taxation revenue
 - (D) A decrease in consumption and an increase in taxation revenue
- 5** If the present rate of unemployment equals the natural rate of unemployment, which of the following must equal zero?
- (A) Seasonal unemployment
 - (B) Structural unemployment
 - (C) Frictional unemployment
 - (D) Cyclical unemployment

- 6 The diagram illustrates a typical business cycle for an economy.



- Which of the following is likely to occur as the economy moves from *A* to *B*?
- (A) Lower volume of imports and lower volume of exports
 - (B) Lower rates of unemployment and higher consumption levels
 - (C) Lower rates of economic growth and lower government revenue
 - (D) Lower government revenue and higher rates of unemployment
- 7 Which of the following is regarded as a measure of a nation's external stability?
- (A) Net income as a percentage of Gross Domestic Product
 - (B) Net foreign debt as a percentage of Gross Domestic Product
 - (C) Net services as a percentage of Gross Domestic Product
 - (D) Net transfers as a percentage of Gross Domestic Product
- 8 What is the equilibrium level of income if $C = 100 + 0.8Y$ and $I = 40$?
- (A) 100
 - (B) 140
 - (C) 500
 - (D) 700

- 9 The diagram shows aggregate demand for a closed economy.



- What is the level of aggregate demand at the equilibrium level of income?
- (A) $0L$
(B) LK
(C) $0K$
(D) $0J$
- 10 What is one way a government can finance a budget deficit?
- (A) Borrowing from the public
(B) Reducing its annual spending
(C) Reducing the level of imports
(D) Increasing income tax rates
- 11 Other things being equal, which action by the Reserve Bank of Australia could cause a depreciation of the Australian dollar against other currencies?
- (A) Selling Australian dollars in foreign exchange markets
(B) Selling foreign currency in foreign exchange markets
(C) Influencing domestic money markets to raise interest rates
(D) Influencing domestic financial markets to lower securities prices

- 12 The table shows Consumer Price Index information for a nation.

<i>Year</i>	<i>Consumer Price Index</i>
1	100.0
2	104.0
3	106.6

What is the inflation rate for Year 3?

- (A) 2.5%
 - (B) 2.6%
 - (C) 4.0%
 - (D) 6.6%
- 13 Which of the following explains why the market system fails to produce public goods?
- (A) Consumers prefer to buy private goods rather than public goods.
 - (B) Consumers can benefit from public goods without having to pay for them.
 - (C) Low income earners are disadvantaged because they cannot afford public goods.
 - (D) Government business enterprises produce public goods cheaper than private industry.
- 14 The table shows the marginal propensity to consume for an economy.

<i>Year</i>	<i>Marginal propensity to consume (MPC)</i>
1	0.2
2	0.3
3	0.6

What does the table indicate about the size of the simple multiplier for this economy?

- (A) It was highest in Year 1.
- (B) It was lowest in Year 3.
- (C) It increased between Years 1 and 3.
- (D) It doubled between Years 2 and 3.

- 15 The table shows selected economic data for a nation.

<i>Year</i>	<i>Export price index</i>	<i>Import price index</i>
1	100	110
2	110	112

What does the table indicate about this economy?

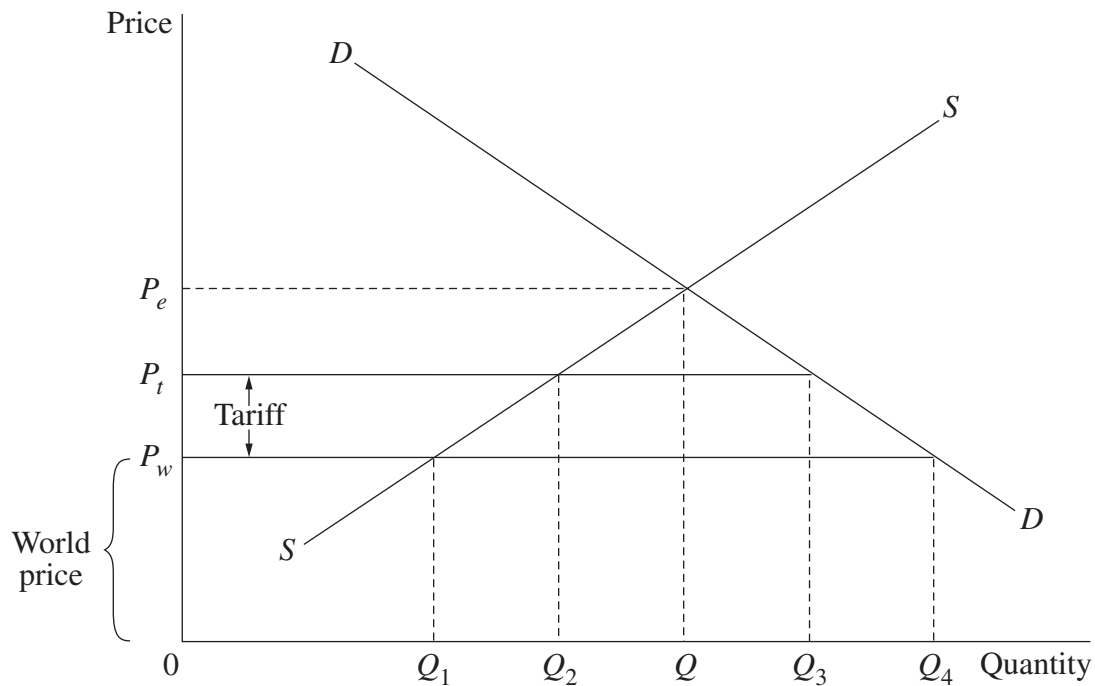
- (A) Import volumes exceeded export volumes in both years.
(B) The terms of trade worsened between Year 1 and Year 2.
(C) The balance of trade improved marginally between Year 1 and Year 2.
(D) Fewer exports were required to pay for the same volume of imports in Year 2.
- 16 Which of the following would indicate that Australia's capital and financial account is in surplus?
- (A) An increase in Australia's Current Account Deficit
(B) A reduction in Australia's foreign debt as a percentage of GDP
(C) When income from Australian exports is greater than expenditure on imports
(D) When Australia's lending to overseas exceeds Australia's borrowing from overseas
- 17 The table shows population and employment data for a nation.

<i>Year</i>	<i>Population</i> (million)	<i>Working age population</i> (million)	<i>Employed persons</i> (million)	<i>Officially unemployed</i> (million)
1	20	10	6	2
2	25	13	9	3

Which of the following is correct concerning this nation between Years 1 and 2?

- (A) The participation rate decreased.
(B) The participation rate increased.
(C) The unemployment rate decreased.
(D) The unemployment rate increased.

18 The diagram illustrates the effect of a tariff.



Which of the following represents the effect of this tariff on the economy?

- (A) The domestic price would increase to the equilibrium price ($0P_e$).
- (B) Domestic production would increase from $0Q_1$ to $0Q_2$.
- (C) Import volumes would increase from $0Q_2$ to $0Q_3$.
- (D) Government revenue would be equal to the world price ($0P_w$).

19 What is an advantage of free trade?

- (A) Nations are free to take measures to protect all domestic industries.
- (B) Nations attempt to become self-sufficient to satisfy domestic wants.
- (C) Nations are able to specialise and as a result produce more output.
- (D) Nations can prevent cheap imports being dumped on domestic markets.

20 Which of the following describes a role of the World Trade Organisation (WTO)?

- (A) It promotes international financial stability.
- (B) It regulates investment in public infrastructure.
- (C) It advocates protectionist policies for developing countries.
- (D) It monitors developments in world trade and reviews barriers to world trade.

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Centre Number

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)

The table shows selected economic data for the Australian economy, which has a floating exchange rate system.

<i>Year</i>	<i>Exchange rate of the \$A (in terms of \$US)</i>	<i>Trade weighted index (TWI)</i>
1	0.60	70
2	0.65	72
3	0.68	70
4	0.64	65

(a) Define the term *exchange rate*.

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(b) Identify TWO possible reasons for the movement in the exchange rate of the \$A (in terms of \$US) from Year 1 to Year 2.

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Question 21 continues on page 10

Question 21 (continued)

- (c) Briefly explain why an exchange rate can move in the opposite direction to the Trade Weighted Index. **2**

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- (d) Explain the likely impact on Australia’s Balance of Payments of the decline in the Trade Weighted Index from Year 3 to Year 4. **4**

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End of Question 21

Five empty boxes for Centre Number

Centre Number

Section II (continued)

Eight empty boxes for Student Number

Student Number

Marks

Question 22 (10 marks)

The table shows selected data for a nation.

<i>Year</i>	<i>Money gross domestic product (GDP) (\$m)</i>	<i>Consumer price index (CPI)</i>
1	380	100
2	416	104

(a) Calculate the real GDP for this economy in Year 2. 1

..... (\$ million)

(b) Define the term *economic growth*. 2

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(c) Explain how an increase in productivity contributes to economic growth. 3

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Question 22 continues on page 12

Question 22 (continued)

- (d) Explain the benefits of economic growth to business firms and the government. **4**

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End of Question 22

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Centre Number

Section II (continued)

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Student Number

Marks

Question 23 (10 marks)

The table shows the Balance of Payments for a nation. (Assume a floating exchange rate.)

<i>Current account</i> (\$ billion)		<i>Capital and financial account</i> (\$ billion)	
Balance on goods and services	- 1.2	Capital account	1.5
Net current transfers	0.5	Financial account	?
Net income	-18.5		

- (a) Using the data in the table, calculate the balance on financial account. **1**

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 (\$ billion)

- (b) Outline TWO factors that could increase a nation's Current Account Deficit. **2**

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Question 23 continues on page 14

Question 23 (continued)

- (c) Explain the relationship between net income in the current account and the capital and financial account. 3

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- (d) Explain how a sustained increase in the Current Account Deficit could affect an economy. 4

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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) Outline ONE advantage and ONE disadvantage of using monetary policy to manage the economy. **2**

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- (b) Explain how the Reserve Bank influences changes in the level of interest rates in the Australian economy. **4**

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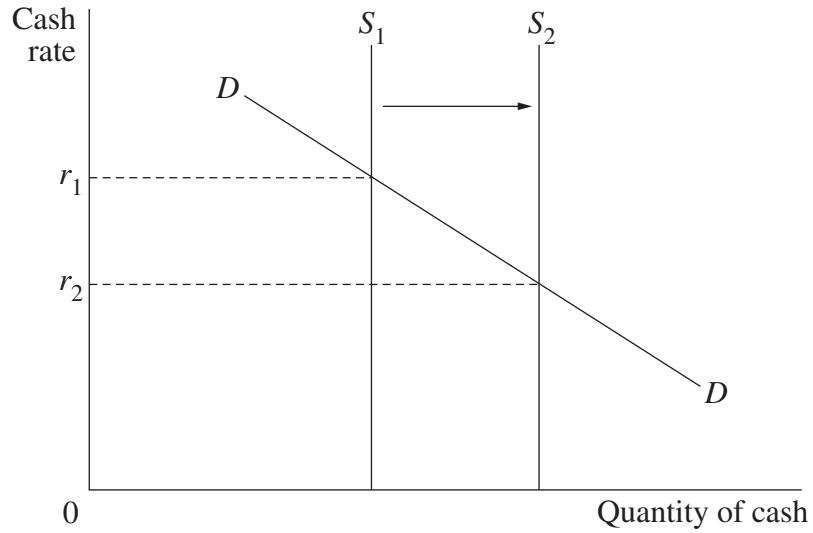
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Question 24 continues on page 16

Question 24 (continued)

(c) The diagram shows the demand and supply of cash.

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Explain the effects of a move in the cash rate from $0r_1$ to $0r_2$ on the level of economic activity and the exchange rate. (Assume a floating exchange rate.)

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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
-

Please turn over

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)

In relation to the Australian economy, discuss the causes of unemployment and the economic and social problems created by unemployment.

The Australian economy has continued to expand at a good pace in the recent period, despite the continued drag from the weak world economy and the drought. This outcome reflected continued strong growth in domestic demand, though the pace moderated somewhat in the second half of last year. The ongoing expansion of the economy has been sufficient to generate a further strengthening of the labour market, with the unemployment rate declining significantly during 2002.

Adapted from *Statement on Monetary Policy*,
Reserve Bank of Australia, February 2003

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Despite Australia's relatively low rate of unemployment, the plight of the long-term unemployed remains a serious economic and social concern.

Un sourced quote

OR

Question 26 (20 marks)

Discuss the causes of inflation and the policies available to the Australian Government to control the rate of inflation.

During the year to December 2002 Australia's underlying inflation was around 2.5 per cent, having declined from just over 3 per cent at the end of the previous year. The main factor contributing to the decline in underlying inflation appears to have been the fading of the impact of the exchange rate depreciation that took place over the period 1998–2000. In addition to this impact from the traded goods sector, there was some easing in wage costs.

Adapted from *Statement on Monetary Policy*,
Reserve Bank of Australia, February 2003

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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)

Explain the impact of globalisation on the economic performance of EITHER the Australian economy OR an economy other than Australia.

OR

Question 28 (20 marks)

Explain how current labour market policies contribute to the management of the Australian economy.

End of paper

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