



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

**2005**

**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 9–18

**40 marks**

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

**Section III** Pages 19–20

**20 marks**

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

**Section IV** Page 21

**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*  
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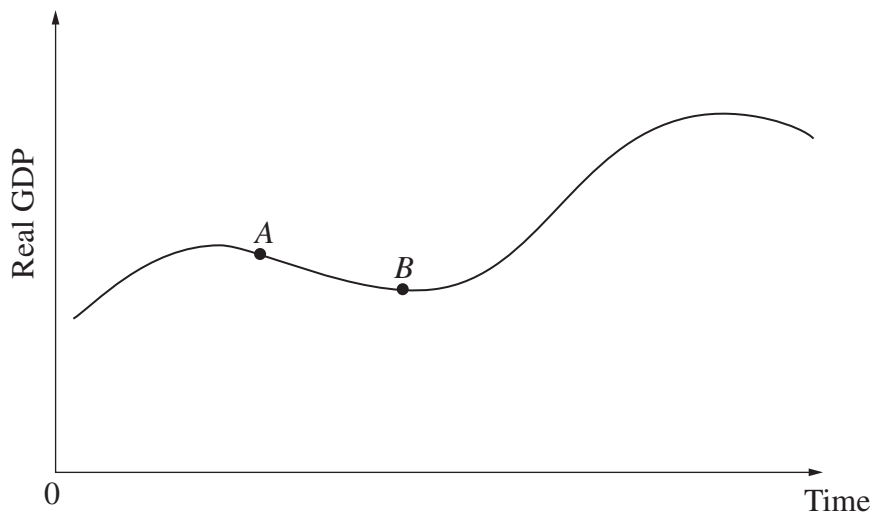
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- 1** A developing economy is experiencing a short-term collapse in the value of its currency. From which of the following institutions is it most likely to receive assistance?
- (A) The World Bank
  - (B) The World Trade Organisation
  - (C) The International Monetary Fund
  - (D) The Organisation for Economic Cooperation and Development
- 2** Increases in which of the following indicate economic development?
- (A) Structural change and real incomes
  - (B) Consumer Price Index and the value of the currency
  - (C) Gross Domestic Product and the level of employment
  - (D) Labour force participation rate and the level of employment
- 3** Which of the following describes an effect of globalisation?
- (A) There has been a greater divergence in world economic systems.
  - (B) There has been an increase in the inequality of income distribution in developing economies.
  - (C) There has been an increasing trend towards regulation of labour, financial and product markets.
  - (D) The newly industrialised economies of the world have enjoyed economic growth, but no increase in international trade.
- 4** Which of the following represents a fiscal policy decision to restrict economic growth?
- (A) The raising of interest rates to slow down inflation
  - (B) Actions by the Reserve Bank to support Australia's currency
  - (C) The operation of automatic built-in stabilisers during a recession
  - (D) A decrease in government spending on infrastructure development

- 5 Which of the following could be a cause of demand inflation?
- (A) An increase in the cost of labour
  - (B) An increase in domestic interest rates
  - (C) An increase in the level of consumer spending
  - (D) An increase in import prices, resulting from a depreciating dollar
- 6 A multinational car manufacturer is forced by the government to install anti-pollution devices.

Which of the following outcomes is a result of this action?

- (A) An increase in private costs and a reduction in negative externalities
  - (B) An increase in private costs and an increase in negative externalities
  - (C) An increase in social costs and a reduction in negative externalities
  - (D) An increase in social costs and an increase in negative externalities
- 7 The diagram illustrates a typical business cycle for an economy.



Which of the following describes the effect on the Federal Government's budget as the economy moves from A to B?

- (A) An increase in tax revenue and an increase in transfer payments
- (B) An increase in tax revenue and a decrease in transfer payments
- (C) A decrease in tax revenue and an increase in transfer payments
- (D) A decrease in tax revenue and a decrease in transfer payments

- 8 Which of the following is an example of a reform in a factor market?
- (A) Introduction of a quota on imported items  
 (B) Expansion of government welfare programs  
 (C) Removal of minimum wage levels for specific industries  
 (D) Implementation of quality control testing for finished goods
- 9 Which of the following is a feature of a *safety net* in wage determination?
- (A) It is a part of all enterprise agreements.  
 (B) It is included in certified agreements as negotiated by unions.  
 (C) It protects employers against wage increases which exceed productivity.  
 (D) It reduces the inequality of wages and income between skilled and unskilled workers.
- 10 Which of the following is the likely effect on Australia of a recession in the economies of all Australia's major trading partners?
- (A) A reduction in Australia's imports and a decrease in the current account deficit  
 (B) A reduction in Australia's exports and an increase in the current account deficit  
 (C) A reduction in foreign investment into Australia and a decrease in the financial account surplus  
 (D) An increase in foreign investment into Australia and a decrease in the financial account surplus
- 11 The table shows selected data for an economy.

<i>Year</i>	<i>Change in real gross domestic product</i>	<i>Government budget revenue (\$bn)</i>	<i>Government budget expenditure (\$bn)</i>	<i>Unemployment rate</i>
1	2.1%	400	320	6.2%
2	3.5%	740	500	5.1%

From Year 1 to Year 2, which of the following statements is correct for this economy?

- (A) The budget surplus is increasing and the economy is expanding.  
 (B) The budget surplus is increasing and the economy is contracting.  
 (C) The budget deficit is increasing and the economy is expanding.  
 (D) The budget deficit is increasing and the economy is contracting.

- 12 The table shows selected data for an economy over a one-year period.

<i>Initial change in investment expenditure (\$m)</i>	<i>Marginal propensity to consume (MPC)</i>	<i>Marginal propensity to save (MPS)</i>	<i>Change in equilibrium national income (\$m)</i>
400	?	?	2000

According to the information in the table, what are the values of MPC and MPS?

- (A) MPC is 5.0 and MPS is 5.0  
(B) MPC is 0.5 and MPS is 0.5  
(C) MPC is 8.0 and MPS is 2.0  
(D) MPC is 0.8 and MPS is 0.2
- 13 Which of the following is recorded as a debit item in the current account of the Australian Balance of Payments?
- (A) Australian financial aid to developing countries  
(B) The purchase by Australians of equities in an overseas company  
(C) Dividend payments from an overseas company to Australian shareholders  
(D) The purchase of equities in an Australian company by an overseas company
- 14 Which of the following measures the terms of trade for an economy?
- (A) The ratio of export income to import expenditure  
(B) The prices of exports compared to the prices of imports  
(C) The difference between export income and import expenditure  
(D) The volume of imported goods compared to the volume of exported goods
- 15 Which of the following is the likely effect of a fall in the level of Australia's interest rates relative to overseas interest rates?
- (A) Increased capital outflow and downward pressure on the value of the \$A  
(B) Increased capital outflow and upward pressure on the value of the \$A  
(C) Increased capital inflow and downward pressure on the value of the \$A  
(D) Increased capital inflow and upward pressure on the value of the \$A

- 16 Which of the following factors best illustrates the difference between monetary policy and fiscal policy?
- (A) Monetary policy is quicker to implement than fiscal policy, and is more effective in stimulating the economy than in slowing it down.
- (B) Monetary policy is quicker to implement than fiscal policy, and is more effective in slowing down the economy than in stimulating it.
- (C) Monetary policy is slower to implement than fiscal policy, and has a longer time lag than fiscal policy in bringing about changes.
- (D) Monetary policy is slower to implement than fiscal policy, and has a shorter time lag than fiscal policy in bringing about changes.
- 17 Which of the following actions could the Reserve Bank undertake to reduce economic activity in the Australian economy?
- (A) Buy government securities to decrease interest rates and appreciate the \$A
- (B) Buy government securities to increase interest rates and appreciate the \$A
- (C) Sell government securities to increase interest rates and appreciate the \$A
- (D) Sell government securities to increase interest rates and depreciate the \$A
- 18 The table shows selected data for an economy.

<i>Balance of Payments items</i>	\$ billion (\$bn)
Exports	300
Imports	340
Net services	-60
Net income	-100
Net current transfers	80

According to the information in the table, which of the following statements is correct?

- (A) There is a deficit of \$280bn on the capital and financial account.
- (B) There is a deficit of \$200bn on the current account.
- (C) There is a surplus of \$40bn on merchandise trade.
- (D) There is a surplus of \$120bn on the capital and financial account.

19 Which of the following is a feature of the *natural rate of unemployment*?

- (A) It varies inversely with the inflation rate.
- (B) It increases during times of economic downturn.
- (C) It occurs when the rate of cyclical unemployment is zero.
- (D) It is the total of frictional and seasonal unemployment rates.

20 The table shows population and labour force data for an economy for the month of June.

<i>Population</i> (million)	<i>Population of working age</i> (million)	<i>Employed persons</i> (million)	<i>Unemployed persons</i> (million)
30	15	9	3

Which of the following statements is true for this economy in June?

- (A) The participation rate is 50% and the unemployment rate is 20%.
- (B) The participation rate is 60% and the unemployment rate is 25%.
- (C) The participation rate is 60% and the unemployment rate is 20%.
- (D) The participation rate is 80% and the unemployment rate is 25%.



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Centre Number

Section II

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Student Number

40 marks

Attempt Questions 21–24

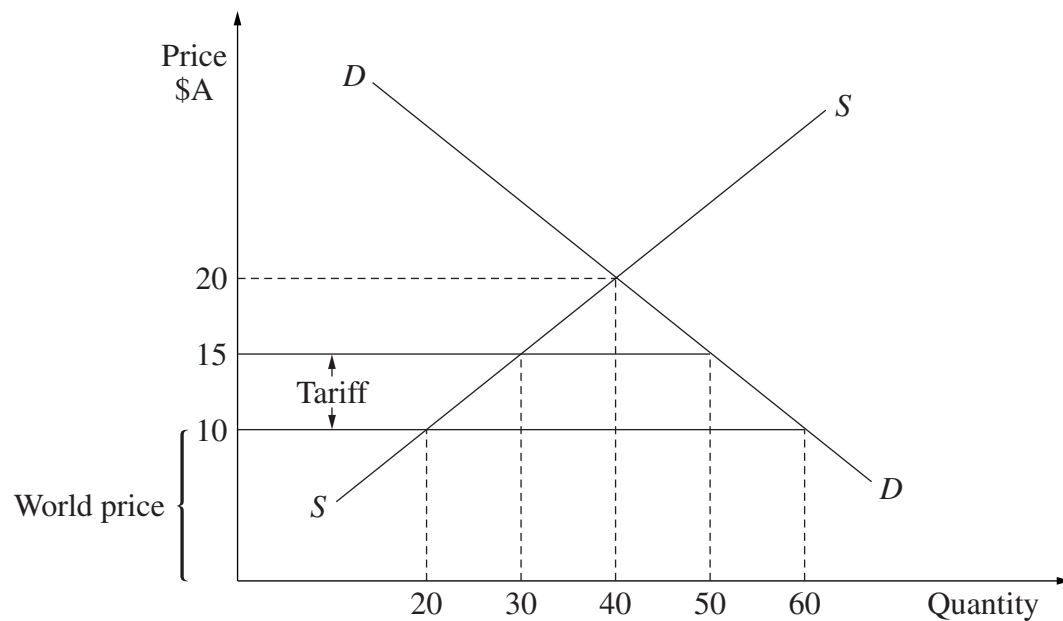
Allow about 1 hour and 15 minutes for this section

Answer the questions in the spaces provided.

Marks

Question 21 (10 marks)

The diagram illustrates the effect of a tariff on the product of a particular industry. The curve *SS* is the supply from domestic producers, and the curve *DD* is the demand from domestic consumers.



- (a) What is the domestic market price for this product after the imposition of this tariff? 1

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- (b) Calculate the amount of government revenue raised from this tariff. 1

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Question 21 continues on page 10

Question 21 (continued)

- (c) Outline **THREE** methods of protection, other than tariffs, for domestic producers. **3**

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**Question 21 continues on page 11**

Question 21 (continued)

- (d) Explain the economic effects of a reduction in the general level of protection for the Australian economy.

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**End of Question 21**

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**Economics**

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Centre Number

**Section II (continued)**

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Student Number

**Marks**

**Question 22** (10 marks)

The table shows selected data for Australia’s labour market.

<i>Year</i>	<i>Percentage of employees covered by awards</i>
1990	80%
1995	78%
2000	23%
2005	20%

Source: *Australian Bureau of Statistics*

Data on Australia’s labour market, Australia’s trade and Australia’s rate of inflation. “ABS data used with permission from the Australian Bureau of Statistics”

- (a) Define what is meant by the term *award* in Australia’s industrial relations framework. **2**

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- (b) Identify and account for the trend in the table of the changing percentage of Australia’s employees covered by awards. **2**

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**Question 22 continues on page 14**

Question 22 (continued)

- (c) Outline TWO features of *Australian Workplace Agreements*. 2

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- (d) Discuss arguments for and against the move to a more decentralised system of wage determination in Australia. 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 selected data for Australia's exchange rate.

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- (a) What economic term describes the movement of the \$A relative to the \$US over the period Year 1 to Year 3? **1**

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- (b) Outline the effect on the prices of Australia's exports and imports of the change in the value of the \$A from Year 1 to Year 3. **2**

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- (c) Define the term *Trade Weighted Index*. **2**

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**Question 23 continues on page 16**

Question 23 (continued)

- (d) Explain how Reserve Bank operations in the foreign exchange market and the domestic money market can influence the value of the \$A. 5

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**End of Question 23**



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Centre Number

Section II (continued)

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Student Number

**Marks**

**Question 24** (10 marks)

(a) What does the *Gini coefficient* measure? **1**

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(b) What does a movement in the Gini coefficient from 0.60 to 0.50 indicate for income distribution? **1**

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(c) Distinguish between the terms *income* and *wealth*. **2**

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**Question 24 continues on page 18**

Question 24 (continued)

- (d) Describe a possible social consequence of an increase in the inequality of income distribution for an economy. 2

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- (e) Explain how differences in gender and occupation can contribute to income inequality 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)

Examine the reasons for changes in the composition and direction of Australia's trade, and explain the impact of these changes on structural change in Australia.

#### Selected data on Australia's trade

	1991/92		2003/04	
	<i>Share of total exports (%)</i>	<i>Share of total imports (%)</i>	<i>Share of total exports (%)</i>	<i>Share of total imports (%)</i>
ASEAN	13	8	11	16
CHINA	3	4	9	12
JAPAN	26	18	18	12
USA	9	23	9	15

Source: *Australian Bureau of Statistics*

Data on Australia's labour market, Australia's trade and Australia's rate of inflation. "ABS data used with permission from the Australian Bureau of Statistics"

The process of internationalisation or 'globalisation' involves a thorough transformation of the Australian economy from being inward looking and protectionist, to being externally oriented in both trade and investment.

Source: JOHN HOWE, *Reserve Bank of Australia Conference on Internationalisation, Trade and Foreign Direct Investment*

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**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)

Examine the economic policies available to deal with inflation in the Australian economy, and explain the limitations of these policies.

The use of higher interest rates to restrict aggregate demand is only one method of reducing inflation. Anti-inflationary macroeconomic policies also tend to be blunt instruments which can have undesirable side-effects. These policies are often hindered by timing and political considerations. Depending on the source of inflationary pressures, microeconomic policy may be more effective and less costly than other macroeconomic policies.

**Australia's rate of inflation**

<i>Year</i>	<i>Increase in the Consumer Price Index (%)</i>
1999–2000	3.2
2000–2001	6.0
2001–2002	2.9
2002–2003	3.1
2003–2004	2.4

Source: *Australian Bureau of Statistics*

Data on Australia's labour market, Australia's trade and Australia's rate of inflation. "ABS data used with permission from the Australian Bureau of Statistics"

## **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)

Outline the factors affecting Australia's economic growth, and analyse the relationship between economic growth and changes in Australia's unemployment rate.

**OR**

**Question 28** (20 marks)

Outline the features of globalisation, and analyse the impact of globalisation on the standard of living in the global economy.

**End of paper**

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