

BOARD OF STUDIES
NEW SOUTH WALES

2008

**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 9–17

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 for Questions 1–20.

- 1 Which of the following best characterises a developing economy?
 - (A) Low levels of income inequality
 - (B) High Human Development Index
 - (C) Stability and low levels of corruption
 - (D) High dependence on agricultural production

- 2 What would be the most likely effect of the Reserve Bank of Australia purchasing government securities?
 - (A) A decrease in liquidity and a decrease in interest rates
 - (B) An increase in liquidity and a decrease in interest rates
 - (C) A decrease in liquidity and an increase in interest rates
 - (D) An increase in liquidity and an increase in interest rates

- 3 Which of the following describes a *public good*?
 - (A) A rival good which is excludable
 - (B) A rival good which is non-excludable
 - (C) A non-rival good which is excludable
 - (D) A non-rival good which is non-excludable

- 4 What has contributed to Australia's persistent current account deficit?
 - (A) Ongoing federal budget surpluses
 - (B) Australia's low national savings rate
 - (C) The high level of diversification of Australia's exports
 - (D) A reduction in dividend payments to foreign investors

5 The table shows selected data for an economy.

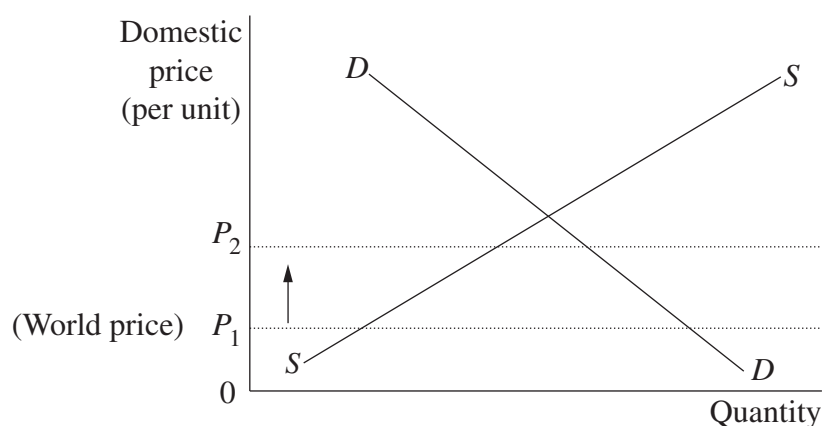
<i>Balance of payments items</i>	<i>\$ billion (\$bn)</i>
Exports	400
Imports	460
Net services	-50
Net income	-110
Net current transfers	70

According to the data, which statement is correct for an economy with a floating exchange rate?

- (A) There is a surplus of \$150bn on the capital and financial account.
 - (B) There is a deficit of \$150bn on the capital and financial account.
 - (C) There is a surplus of \$290bn on the current account.
 - (D) There is a deficit of \$290bn on the current account.
- 6 Which of the following is an economic argument against protection?
- (A) There is an increased risk of dumping of foreign products.
 - (B) Infant industries are shielded from foreign competition.
 - (C) Unemployment increases in the short term.
 - (D) Resources are misallocated.
- 7 What would be the initial impact of an increase in aggregate demand when an economy is at its natural rate of unemployment?
- (A) An increase in unemployment and an increase in prices
 - (B) An increase in unemployment and a decrease in prices
 - (C) A decrease in unemployment and an increase in prices
 - (D) A decrease in unemployment and a decrease in prices

- 8 What would be the most likely effect of a move to a more decentralised system of wage determination?
- (A) Reduced labour mobility
 - (B) Reduced income inequality
 - (C) Reduced inflationary pressure
 - (D) Reduced international competitiveness

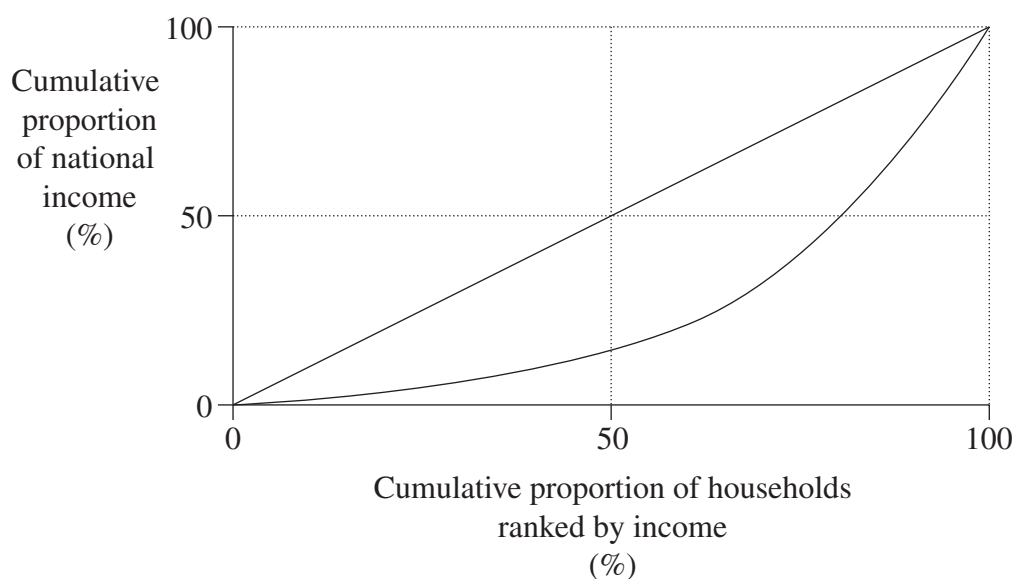
- 9 The diagram shows the impact of a change in trade policy on the domestic market.



Which of the following explains the increase in domestic price from P_1 to P_2 ?

- (A) A reduction in tariffs
 - (B) Relaxation of local content rules
 - (C) The introduction of an import quota
 - (D) Increased subsidies paid to domestic producers
- 10 Which of the following may cause an appreciation of the Australian dollar?
- (A) Australia's interest rates increase relative to overseas interest rates.
 - (B) Australian investors purchase a foreign owned firm.
 - (C) World commodity prices decrease.
 - (D) Imports into Australia increase.

11 The diagram shows the Lorenz curve for an economy.



What proportion of national income is received by the poorest 50% of households?

- (A) 15%
 - (B) 35%
 - (C) 50%
 - (D) 80%
- 12 How could the Australian government finance a budget deficit while maintaining external stability?
- (A) By increasing domestic income tax rates
 - (B) By selling bonds to international investors
 - (C) By reducing the level of government expenditure
 - (D) By borrowing funds from the domestic private sector

- 13 The table shows population and employment data for two countries, *A* and *B*.

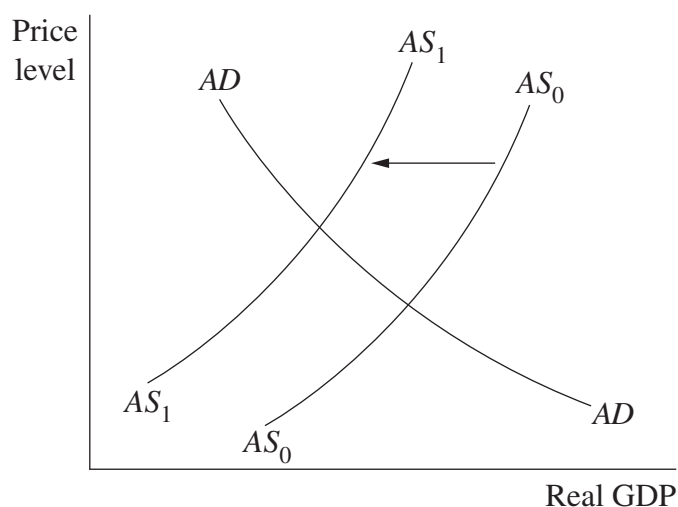
<i>Country</i>	<i>Population</i> (million)	<i>Working age population</i> (million)	<i>Employed</i> (million)	<i>Unemployed</i> (million)
<i>A</i>	120	70	35	5
<i>B</i>	90	50	26	4

Which statement is correct?

- (A) Country *A* has a higher participation rate and a higher unemployment rate than Country *B*.
 - (B) Country *A* has a higher participation rate but a lower unemployment rate than Country *B*.
 - (C) Country *B* has a higher participation rate and a higher unemployment rate than Country *A*.
 - (D) Country *B* has a higher participation rate but a lower unemployment rate than Country *A*.
- 14 Which of the following is a feature of market failure?
- (A) It is not easy to price public goods or ration their use.
 - (B) Property rights are clearly identifiable and enforceable.
 - (C) The equilibrium price for resource usage takes into consideration social costs.
 - (D) An increase in negative externalities is directly paid for by the producer or consumer.

- 15** An economy is a net importer of commodities and a net exporter of manufactured goods. Which of the following will lead to a deterioration in its terms of trade?
- (A) The volume of manufactured exports increases relative to the volume of commodity imports.
 - (B) The volume of manufactured exports decreases relative to the volume of commodity imports.
 - (C) The prices for commodities increase relative to prices for manufactured goods on world markets.
 - (D) The prices for manufactured goods increase relative to commodity prices on world markets.
- 16** Which of the following contributes to wage decentralisation in Australia?
- (A) The operation of the Australian Industrial Relations Commission (AIRC)
 - (B) The abolition of Australian Workplace Agreements (AWAs)
 - (C) The annual adjustment of the minimum wage
 - (D) The practice of enterprise bargaining
- 17** Which of the following would increase Australia's Gini coefficient?
- (A) An increase in the Goods and Services Tax (GST) rate
 - (B) An increase in the top marginal tax rate
 - (C) An increase in welfare payments
 - (D) An increase in public housing
- 18** Which of the following would reduce frictional unemployment?
- (A) Decreasing government expenditure on training and development
 - (B) Improving the effectiveness of employment agencies
 - (C) Reducing the minimum school leaving age
 - (D) Encouraging welfare recipients to work

- 19 The diagram shows the aggregate demand and aggregate supply curves for an economy.



Other things being equal, which of the following will shift the aggregate supply curve from AS_0 to AS_1 ?

- (A) Lower tax rates
 - (B) Decreased interest rates
 - (C) Reduced skilled migrant intake
 - (D) Appreciation of the exchange rate
- 20 Which statement about *externalities* is correct?
- (A) In the presence of negative externalities, private costs are greater than social costs.
 - (B) In the presence of negative externalities, social costs are greater than private costs.
 - (C) In the presence of positive externalities, private benefits are greater than social benefits.
 - (D) In the presence of positive externalities, private costs are greater than private benefits.

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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)

- (a) Calculate the simple multiplier for an economy in which the $MPS = 0.25$. 1

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- (b) How does the multiplier process increase national income? 2

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- (c) Outline ONE effect of economic growth on an economy. 2

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Question 21 continues on page 10

Question 21 (continued)

- (d) Explain how ONE domestic influence and ONE global influence affect Australia’s economic growth.

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Section II (continued)

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Student Number

Marks

Question 22 (10 marks)

- (a) Define *gross world product*. **2**

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- (b) Outline ONE positive and ONE negative impact of globalisation on the environment. **2**

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- (c) Describe ONE impact of transnational corporations (TNCs) on a country other than Australia. **2**

Name of country:

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Question 22 continues on page 12

Question 22 (continued)

- (d) Evaluate the effectiveness of ONE strategy that has been used to promote economic development in a country other than Australia. **4**

Name of country:

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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)

- (a) What is meant by the term *structural change*? 2

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- (b) Why might a government implement microeconomic reform? 2

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- (c) Describe ONE limitation of microeconomic reform. 2

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Question 23 continues on page 14

Question 23 (continued)

- (d) Examine the economic effects of financial market deregulation OR labour market deregulation in Australia. 4

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Centre Number

Section II (continued)

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Student Number

Marks

Question 24 (10 marks)

(a) Define *foreign direct investment (FDI)*.

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Question 24 continues on page 16

Question 24 (continued)

(b) The table shows current account data for Australia.

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Australia's current account balance 2006-07 (\$m)

Balance on Goods and Services		-12 033
Income		
Credits	32 873	
Debits	<u>-79 585</u>	
Net Income		-46 712
Net current transfers		-444
Balance on the current account		<u>-59 189</u>

Balance of Payments and International Investment Position; Catalogue #5302.0, August 2007, ABS data used with permission from the Australian Bureau of Statistics

Source: Australian Bureau of Statistics

Using the data, briefly explain how Net Income affects the current account balance.

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Question 24 continues on page 17

Question 24 (continued)

- (c) Analyse TWO possible economic consequences of foreign debt for an economy. **5**

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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
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Question 25 (20 marks)

Discuss the influence of international organisations and contemporary trading blocs and agreements in promoting globalisation. In your answer, use the economic information provided.

“Essentially, the WTO is a place where member governments go to try to sort out the trade problems they face with each other.”

“The IMF’s primary purpose is to ensure the stability of the international monetary system – the system of exchange rates and international payments that enables countries . . . to buy goods and services from each other.”

“What Is the IMF?” September 30, 2006.
www.imf.org/external/pubs/ft/exrp/what.htm

“Trading blocs can act either as ‘stepping stones’ or ‘stumbling blocks’ to global free trade.”

“Multilateral and bilateral trade agreements can influence participating countries in different ways.”

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OR

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 effects of an appreciation of the Australian dollar on Australia's internal and external stability. In your answer, use the economic information provided.

Selected economic indicators for the Australian economy

<i>Year</i>	<i>Trade weighted index</i>	<i>Current account (% of GDP)</i>	<i>Inflation (%)</i>	<i>Unemployment Rate (%)</i>
2001	49.7	-2.6	6.0	6.4
2002	52.3	-2.6	2.9	6.6
2003	59.4	-5.1	3.1	6.1
2004	59.1	-5.6	2.4	5.6
2005	64.5	-6.2	2.4	5.1
2006	62.2	-5.6	3.2	4.9
2007	68.9	-5.8	2.9	4.2

Source: *Australian Bureau of Statistics, 2007*

Australian Economic Indicators, August and RBA(2007), Bulletin, August 2007, ABS Cat. 1350.0 & 5302.0 & ABS CPI Cat. 6401.0 Dec 2007, 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.

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
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Question 27 (20 marks)

Evaluate the effectiveness of fiscal policy in achieving Australia's economic objectives.

OR

Question 28 (20 marks)

Evaluate the effectiveness of monetary policy in achieving Australia's economic objectives.

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