

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

2009

**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** How can the government decrease inflationary pressures in the Australian economy?

 - (A) By increasing taxation
 - (B) By budgeting for a deficit
 - (C) By depreciating the Australian dollar
 - (D) By increasing government expenditure

- 2** How are the foreign company dividends paid to Australian investors recorded on Australia's Balance of Payments?

 - (A) As a debit on the current account
 - (B) As a credit on the current account
 - (C) As a debit on the capital and financial account
 - (D) As a credit on the capital and financial account

- 3** Which indicators are used to calculate the Human Development Index (HDI)?

 - (A) Population growth, per capita GDP, life expectancy
 - (B) Population growth, infant mortality rate, malnutrition
 - (C) Life expectancy, educational attainment, per capita GDP
 - (D) Current account balance, infant mortality rate, educational attainment

- 4** Which action by the Reserve Bank would stimulate the economy in an economic downturn?

 - (A) Selling government securities in the cash market
 - (B) Buying government securities in the cash market
 - (C) Selling foreign currencies on the foreign exchange market
 - (D) Buying foreign currencies on the foreign exchange market

- 5 The table shows data for a nation's terms of trade.

<i>Year</i>	<i>Export Price Index</i>	<i>Import Price Index</i>
1	100	100
2	110	106
3	115	110

Which of the following statements about this nation's terms of trade is correct?

- (A) They improved from Year 1 through to Year 3.
 - (B) They deteriorated from Year 1 through to Year 3.
 - (C) They deteriorated from Year 1 to Year 2 and then improved from Year 2 to Year 3.
 - (D) They improved from Year 1 to Year 2 and then deteriorated from Year 2 to Year 3.
- 6 The table shows selected data for an economy.

<i>Year</i>	<i>Consumer Price Index (CPI)</i>	<i>Terms of Trade Index</i>
1	120	110
2	130	100
3	135	98

Given the changes in the data from Year 1 to Year 2 and from Year 2 to Year 3, what can be concluded about this economy?

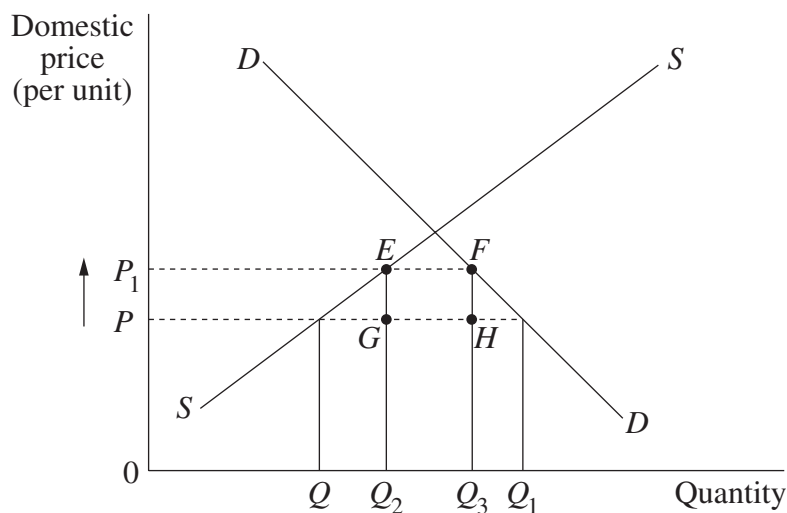
- (A) The inflation rate has decreased and the volume of exports has fallen.
 - (B) The inflation rate has increased and the economy is less internationally competitive.
 - (C) The inflation rate has increased and the price of exports has increased at a faster rate than the price of imports.
 - (D) The inflation rate has decreased and the price of exports has decreased at a faster rate than the price of imports.
- 7 Which of the following statements best describes the implementation and impact of economic policies?
- (A) Microeconomic policy is quickly implemented through the annual budget.
 - (B) Microeconomic policy shifts the aggregate demand curve to improve productivity.
 - (C) Monetary policy is quicker to implement than fiscal policy but takes longer to affect economic activity.
 - (D) Monetary policy is slower to implement than fiscal policy and is quicker to affect economic activity.

8 The table shows selected data for an economy.

<i>Real GDP</i> (\$bn)	<i>Net foreign liabilities</i> (\$bn)	<i>Net foreign debt</i> (\$bn)
1120	780	550

What is the value of net foreign equity as a percentage of real GDP?

- (A) 20.5%
 (B) 30.3%
 (C) 49.1%
 (D) 69.6%
- 9 Which of the following is most likely to improve Australia's international competitiveness?
- (A) Implementation of structural change
 (B) An increase in domestic interest rates
 (C) An improvement in the terms of trade
 (D) An increase in the value of the Australian dollar
- 10 The graph shows the impact of the introduction of a tariff.



Which of the following describes the impact of introducing this tariff?

- (A) Government revenue increased by the rectangle GHQ_3Q_2 .
 (B) Resource allocation improved as the demand for imported products contracted from QQ_1 to Q_2Q_3 .
 (C) Consumers' real income improved as the supply of locally made products expanded from Q to Q_2 .
 (D) Resources were reallocated from importers to local producers as imports fell from QQ_1 to Q_2Q_3 .

- 11** What is the most likely impact of an appreciation of the Australian dollar?
- (A) Lower import prices and an increase in net foreign debt
 - (B) Higher export prices and a deterioration of the terms of trade
 - (C) An improvement in the current account deficit and an increase in inflation
 - (D) A decrease in capital inflows and a decline in international competitiveness

- 12** The table shows selected data for an economy.

<i>Year</i>	<i>Nominal GDP</i> (\$bn)	<i>Consumer Price Index</i> (CPI)	<i>Human Development</i> <i>Index (HDI)</i>
1	6000	130	0.61
2	6800	150	0.76

According to the data, which statement is correct for this economy?

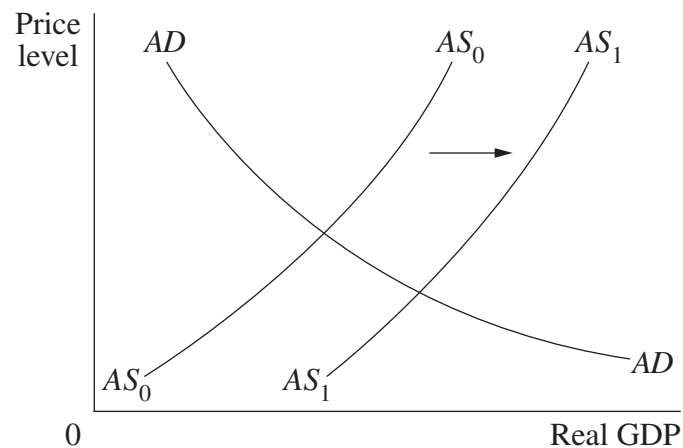
- (A) Real GDP has increased and the quality of life has improved.
 - (B) Real GDP has increased and the quality of life has declined.
 - (C) Real GDP has decreased and the quality of life has improved.
 - (D) Real GDP has decreased and the quality of life has declined.
- 13** The table shows the Gini coefficient for Country *A* and Country *B* over three years.

<i>Year</i>	<i>Country A</i>	<i>Country B</i>
1	0.40	0.90
2	0.60	0.75
3	0.65	0.70

Which statement is correct given the data in the table?

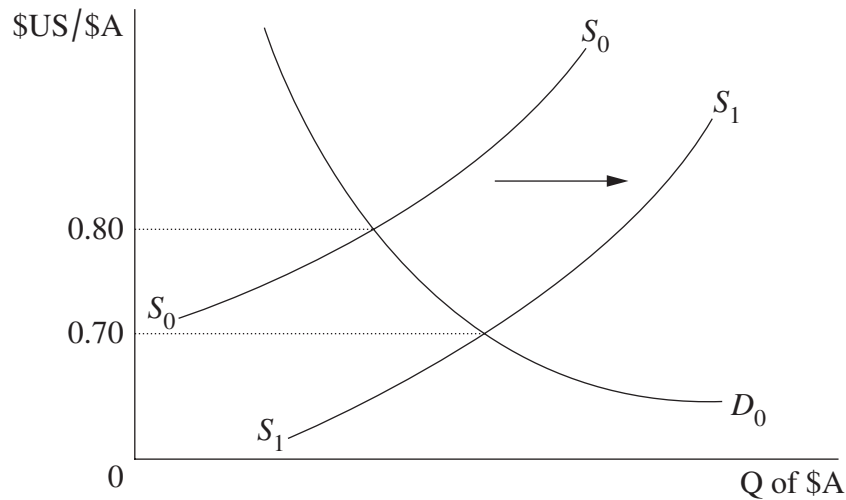
- (A) The Lorenz curve for Country *A* is moving closer to the line of equality.
- (B) The Lorenz curve for Country *B* is moving away from the line of equality.
- (C) The Lorenz curve for Country *A* is further away from the line of equality than the Lorenz curve for Country *B*.
- (D) The Lorenz curve for Country *B* is further away from the line of equality than the Lorenz curve for Country *A*.

- 14 The graph shows aggregate demand and aggregate supply curves for an economy.



- Other things being equal, which of the following is most likely to shift the aggregate supply curve from AS_0 to AS_1 ?
- (A) Deregulating labour markets
 - (B) Regulating financial markets
 - (C) Increasing the rate of company taxation
 - (D) Reducing tax incentives for research and development
- 15 Which of the following is most likely to occur when the Australian government finances a budget deficit by borrowing from overseas?
- (A) Domestic interest rates will rise.
 - (B) The money supply will decrease.
 - (C) The current account deficit will rise.
 - (D) The Australian dollar will depreciate.
- 16 Which of the following occurs when the marginal propensity to consume (MPC) increases?
- (A) The value of the multiplier increases and the equilibrium level of income falls.
 - (B) The value of the multiplier increases and the equilibrium level of income rises.
 - (C) The value of the multiplier decreases and the equilibrium level of income rises.
 - (D) The value of the multiplier decreases and the equilibrium level of income falls.

17 The graph shows the demand and supply for Australian dollars (\$A).



Which of the following would cause the supply curve to shift from S_0 to S_1 ?

- (A) Increased demand for foreign assets by Australians
- (B) Decreased demand for foreign imports by Australians
- (C) Decreased demand for Australian assets by foreigners
- (D) Increased demand for Australian exports by foreigners

18 The table shows selected data for an economy.

Year	Y (\$m)	C (\$m)
1	400	100
2	500	150
3	600	200
4	?	300

What would be the new equilibrium level of income (Y) in Year 4, if consumption (C) in this economy increases to \$300m in Year 4 and the MPC remains constant?

- (A) \$200 m
- (B) \$600 m
- (C) \$700 m
- (D) \$800 m

- 19** How would the size of the labour force and the rate of unemployment be affected if people retrenched from their jobs did not actively seek employment?
- (A) The labour force would be smaller and the unemployment rate would be lower.
 - (B) The labour force would be smaller and the unemployment rate would be higher.
 - (C) There would be no change in the labour force and the unemployment rate would be higher.
 - (D) The labour force would be smaller and there would be no change in the unemployment rate.
- 20** Which of the following is a feature of a decentralised labour market?
- (A) A more flexible dispute resolution process to address wage claims
 - (B) Minimum wage levels automatically adjusted to changes in the cost of living
 - (C) Bargaining between unions and government to set pay and working conditions
 - (D) Collective bargaining to set national benchmarks for pay and working conditions

Economics

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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.

Question 21 (10 marks)

The table shows Consumer Price Index (CPI) data by expenditure group for an economy.

<i>Expenditure group</i>	<i>Weighting factor in CPI (%)</i>	<i>CPI by expenditure group</i>
Food	15	120
Housing	20	110
Health	5	150

- (a) Which expenditure group contributed most to the inflation rate? **1**

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- (b) Distinguish between *demand inflation* and *cost inflation*. **2**

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Question 21 continues on page 10

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Centre Number

Section II (continued)

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Student Number

Question 22 (10 marks)

(a) The table shows information relating to the annual budgets for an economy.

Budget items	Year 1 (\$bn)	Year 2 (\$bn)
<i>Revenue</i>		
Income taxes	123	110
Goods and services tax	43	45
Excise duty	7	7
<i>Expenditure</i>		
Defence	17	20
Health	44	39
Social security/welfare	97	115

Assume that tax rates and social security benefit rates remain unchanged from Year 1 to Year 2.

(i) Calculate the value of the budget outcome for both Year 1 and Year 2. 2

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(ii) Using the data from the table, identify ONE discretionary and ONE non-discretionary item that has contributed to the change in the budget outcome from Year 1 to Year 2. 2

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Question 22 continues on page 12

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Centre Number

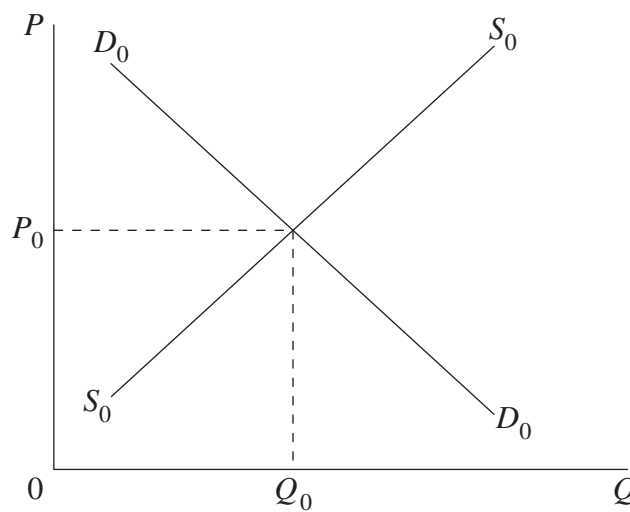
Section II (continued)

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Student Number

Question 24 (10 marks)

- (a) The diagram shows the equilibrium price, P_0 , and quantity, Q_0 , in a domestic economy in which local producers are protected by a subsidy. 2



On the diagram above draw the new equilibrium which results when the subsidy to local producers is removed. Label the new equilibrium price and quantity P_1 and Q_1 .

Question 24 continues on page 16

Question 24 (continued)

(b) Briefly explain the impact on global trade flows of EITHER one contemporary trading bloc OR one international organisation.

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Question 24 continues on page 17

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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 microeconomic policies on Australia's economic performance. In your answer, you should refer to the economic information provided.

Microeconomic reforms in Australia have improved productivity and reduced prices in Australian infrastructure services. These changes raised the average income of Australian households, helped reduce inflation through the development of competitive markets and created employment opportunities in expanding industries.

Adapted from *Productivity Commission*
January 2008,

Extract from Distribution Effects of Changes in Australian Infrastructure Industries during the 1990s by G Verikos & XG Zhang, Productivity Commissions, January 2008, © Commonwealth of Australia reproduced by permission

Annual average growth rate of labour productivity (%)

	Australia	OECD ^a	EU ^b
1960–1970	3.1	4.6	5.4
1970–1980	1.8	2.9	3.8
1980–1990	1.1	2.0	2.1
1990–2000	2.3	1.9	1.9
2000–2007	1.7	1.7	1.2

Adapted Graph- Labour Productivity, Annual average growth rate,
<http://www.pc.gov.au/research/productivity/estimates-trends/international-comparisons>,
© Commonwealth of Australia reproduced by permission

^a OECD: Organisation for Economic Cooperation and Development

^b EU: European Union

Data source: The Conference Board and Groningen Growth and Development Centre, Total Economy Database, September 2008.

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)

With reference to Australia and at least ONE other economy, discuss the impact of globalisation on development and the distribution of global wealth. In your answer, you should refer to the economic information provided.

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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)

Analyse the federal government's macroeconomic policy mix to address inflation and unemployment in the Australian economy.

OR

Question 28 (20 marks)

Analyse the impact of changes in the global economy on Australia's economic growth and external stability.

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