

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

2011

**HIGHER SCHOOL CERTIFICATE
EXAMINATION**

Economics

General Instructions

- Reading time – 5 minutes
- Working time – 3 hours
- Write using black or blue pen
Black pen is preferred
- 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 for Questions 1–20.

- 1** Which of the following is most likely to slow the process of globalisation?
 - (A) Higher labour mobility
 - (B) Lower costs of communication
 - (C) An increase in the world price of oil
 - (D) A reduction in export subsidies by advanced economies

- 2** Which of the following is most likely to reduce income inequality?
 - (A) An increase in the minimum wage
 - (B) A decrease in unemployment benefits
 - (C) Decentralisation of the wage determination system
 - (D) Lower government funding for education and training

- 3** Which of the following policies would be most likely to reduce an economy's non-accelerating inflation rate of unemployment (NAIRU)?
 - (A) Expansionary fiscal policy
 - (B) Contractionary monetary policy
 - (C) Policies that increase factor market competition
 - (D) Policies that decrease product market competition

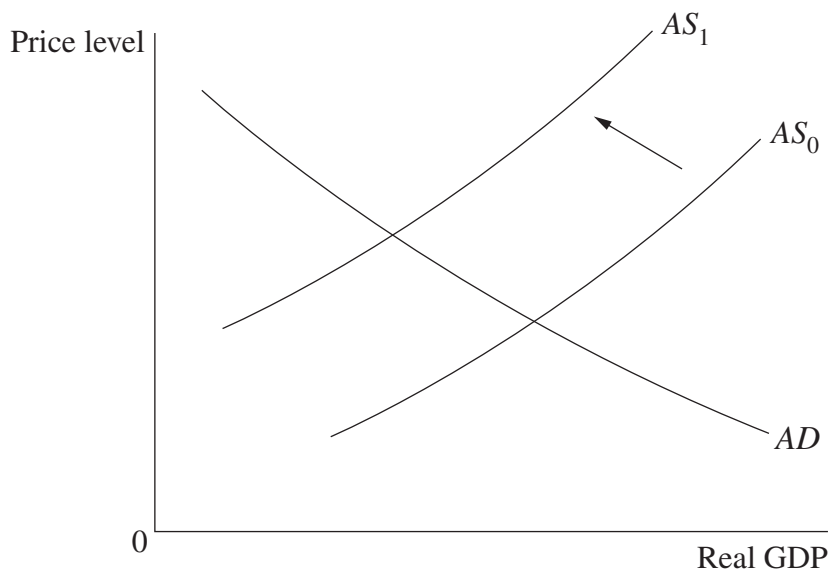
4 The table shows selected data for an economy.

| <i>Component</i> | <i>\$ billion (\$bn)</i> |
|---------------------|--------------------------|
| Government spending | 30 |
| Investment | 25 |
| Saving | 30 |
| Exports | 30 |
| Taxation | 20 |
| Imports | 35 |

Which of the following statements is true for this economy?

- (A) The economy is contracting.
- (B) Injections exceed withdrawals.
- (C) Withdrawals exceed injections.
- (D) The economy is in equilibrium.

5 The graph shows aggregate demand and aggregate supply for an economy.



All other things being equal, which of the following is most likely to shift the aggregate supply curve from AS_0 to AS_1 ?

- (A) An increase in unit labour costs
- (B) A decline in inflationary expectations
- (C) An increase in the economy's national income
- (D) An appreciation of the economy's exchange rate

- 6 Which of the following combinations is most likely to reduce Australia's export volumes?
- (A) The Australian dollar depreciates and there is a recession in the US economy.
 - (B) The Australian dollar appreciates and there is a recession in the US economy.
 - (C) The Australian dollar depreciates and there is an expansion in the US economy.
 - (D) The Australian dollar appreciates and there is an expansion in the US economy.

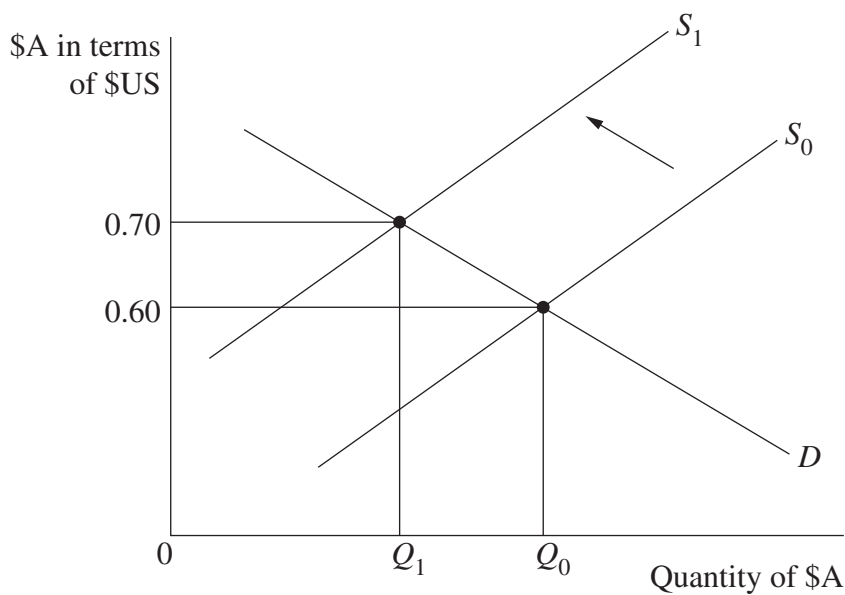
- 7 The table shows data for a nation's terms of trade.

| <i>Year</i> | <i>Export Price Index</i> | <i>Import Price Index</i> |
|-------------|---------------------------|---------------------------|
| <i>1</i> | 110 | 100 |
| <i>2</i> | 105 | 100 |

All other things being equal, which of the following policy actions is most likely to reduce the economic impact of the change in the nation's terms of trade?

- (A) The Reserve Bank increases interest rates.
 - (B) The Government increases income tax rates.
 - (C) The Government increases discretionary expenditure.
 - (D) The Reserve Bank intervenes to increase the value of the currency.
- 8 All other things being equal, households that are most likely to benefit from an increase in the Consumer Price Index are those
- (A) with assets.
 - (B) on fixed incomes.
 - (C) with bank deposits.
 - (D) on the Age Pension.
- 9 Which of the following is an economic cost of a rise in the Gini coefficient?
- (A) An increase in economic growth
 - (B) An increase in the mobility of labour
 - (C) An increase in risk-taking by entrepreneurs
 - (D) An increase in government welfare support

- 10 The graph shows the demand for and supply of Australian dollars.



- Which of the following is the most likely reason for the shift in the supply curve from S_0 to S_1 ?
- (A) An increase in foreign imports into Australia
 (B) An increase in foreign financial investment in Australia
 (C) A reduction in the net income deficit on the current account
 (D) A decline in the international competitiveness of Australian firms
- 11 What is the most likely impact of a rise in the level of Australia's interest rates relative to overseas interest rates?
- (A) An increase in foreign investment in Australia and a depreciation of the \$A
 (B) An increase in foreign investment in Australia and an appreciation of the \$A
 (C) A decrease in foreign investment in Australia and a depreciation of the \$A
 (D) A decrease in foreign investment in Australia and an appreciation of the \$A
- 12 What is the impact of an economic expansion on government revenues and expenditure?
- (A) Both progressive taxation receipts and unemployment benefit payments increase.
 (B) Both progressive taxation receipts and unemployment benefit payments decrease.
 (C) Progressive taxation receipts decrease and unemployment benefit payments increase.
 (D) Progressive taxation receipts increase and unemployment benefit payments decrease.

- 13 The table shows national accounts data for Consumption (C) and National Income (Y) in \$ billion for an economy.

| <i>Year</i> | <i>C</i> (\$bn) | <i>Y</i> (\$bn) |
|-------------|-----------------|-----------------|
| <i>1</i> | 110 | 150 |
| <i>2</i> | 200 | 300 |

What is the new equilibrium level of income (Y) in *Year 3* if investment increases by \$40bn?

- (A) \$360bn
 (B) \$367bn
 (C) \$400bn
 (D) \$420bn
- 14 In which of these situations are the net foreign liabilities of an economy most likely to increase?
- (A) Current account deficit and currency appreciation
 (B) Current account deficit and currency depreciation
 (C) Current account surplus and currency appreciation
 (D) Current account surplus and currency depreciation
- 15 The table shows Balance of Payments data for a hypothetical economy with a floating exchange rate.

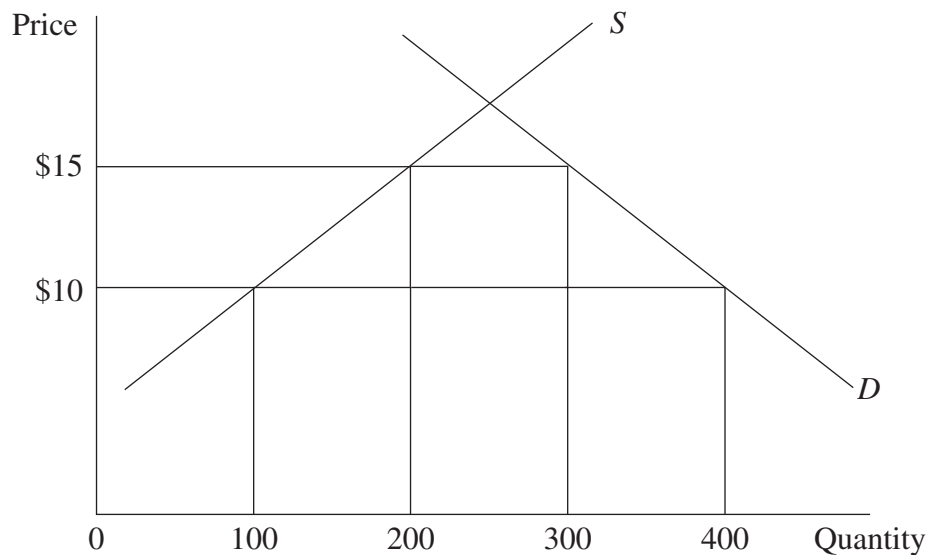
| <i>Balance of Payments (BoP)</i> | <i>\$ billion (\$bn)</i> |
|----------------------------------|--------------------------|
| Net Goods | -15 |
| Net Services | 5 |
| Net Income | -50 |
| Capital Account | 5 |
| Net Current Transfers | 5 |

What is the value of the Financial Account?

- (A) \$45bn
 (B) \$50bn
 (C) \$55bn
 (D) \$60bn

- 16 Which is the most appropriate macroeconomic policy mix if the Australian economy is experiencing inflationary pressures?
- (A) A decrease in taxation and the sale of government securities by the Reserve Bank
 - (B) A decrease in government spending and the sale of government securities by the Reserve Bank
 - (C) An increase in taxation and the purchase of government securities by the Reserve Bank
 - (D) An increase in government spending and the purchase of government securities by the Reserve Bank
- 17 The following graph shows the effect of a tariff on the price and quantity of imported shirts.

Assume that the world price of shirts is \$10 and that the tariff is \$5 per shirt.



By what amount does the revenue of foreign producers of shirts decrease as a result of the tariff?

- (A) \$500
- (B) \$1000
- (C) \$1500
- (D) \$2000

- 18 The table shows the gross domestic product per capita (GDP/Capita) and the Human Development Index (HDI) values for two countries.

| <i>Country</i> | <i>GDP/Capita</i> | <i>HDI</i> |
|----------------|-------------------|------------|
| <i>A</i> | \$3000 | 0.9 |
| <i>B</i> | \$5000 | 0.7 |

What can be correctly inferred from the data in the table?

- (A) *Country A* has a lower Gini coefficient than *Country B*.
 - (B) *Country A* has a higher Gini coefficient than *Country B*.
 - (C) *Country A* has a lower life expectancy and lower educational attainment than *Country B*.
 - (D) *Country A* has a higher life expectancy and higher educational attainment than *Country B*.
- 19 Which of the following methods of financing an expansionary fiscal policy will be more likely to result in higher inflation?
- (A) Selling government assets
 - (B) Borrowing from the Reserve Bank
 - (C) Issuing government securities for sale in the domestic market
 - (D) Issuing government securities for sale to foreign investors in a foreign currency
- 20 An industry that generates pollution incurs both private and social costs.

What will happen to the quantity and equilibrium price when BOTH private and social costs are taken into account?

- (A) Both output and price will fall.
- (B) Both output and price will rise.
- (C) Output will fall and the price will rise.
- (D) Output will rise and the price will fall.

Economics

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Centre Number

Section II

40 marks

Attempt Questions 21–24

Allow about 1 hour and 15 minutes for this section

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Student Number

Answer the questions in the spaces provided. These spaces provide guidance for the expected length of response.

Question 21 (10 marks)

- (a) Outline the role of the World Trade Organisation. 2

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- (b) Explain ONE disadvantage of bilateral trade agreements. 3

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Question 21 continues on page 10

Question 21 (continued)

(c) For an economy other than Australia, analyse the strategies used by the government in response to the international business cycle.

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| Name of economy: |
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End of Question 21

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Section II (continued)

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Student Number

Question 22 (10 marks)

(a) The table shows current account data for an economy.

| <i>Component</i> | <i>Year 1</i> (\$bn) | <i>Year 2</i> (\$bn) |
|-------------------------------|-------------------------|-------------------------|
| Exports of goods and services | 250 | 300 |
| Imports of goods and services | 275 | 350 |
| Net Income | -50 | -60 |
| Net Current Transfers | -5 | -5 |

(i) Calculate the change in the current account balance from *Year 1* to *Year 2*. 2

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(ii) Outline ONE factor that may have caused the change in the Net Income component of the current account. 2

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(iii) Outline ONE factor that may have caused the change in the Imports component of the current account. 2

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Question 22 continues on page 12

Question 22 (continued)

(b) Why does Australia have a persistently high current account deficit?

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End of Question 22

Economics

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Section II (continued)

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Student Number

Question 23 (10 marks)

- (a) The table shows employment data for a hypothetical economy. 1

| | (Millions) |
|-----------------------------|------------|
| Employed persons | 9.5 |
| Unemployed persons..... | 0.5 |
| Working age population..... | 15.0 |
| Total population | 22.0 |

Calculate the participation rate for this economy.

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- (b) What is the difference between an *award* and an *enterprise agreement*? 2

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Question 23 continues on page 14

Question 23 (continued)

- (c) Explain how ONE labour market policy may influence the level of structural unemployment. **3**

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- (d) Explain the advantages of a decentralised system of wage determination on the level of economic activity. **4**

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Section II (continued)

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Question 24 (10 marks)

- (a) Define a *public good*. **2**

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- (b) How may market failure affect the preservation of the natural environment? **3**

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Question 24 continues on page 16

Question 24 (continued)

(c) How can regulations and market-based policies be used to manage the natural environment? 5

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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:

- demonstrate knowledge and understanding relevant to the question
- use the information provided
- apply relevant economic terms, concepts, relationships and theory
- present a sustained, logical and cohesive response

Question 25 (20 marks)

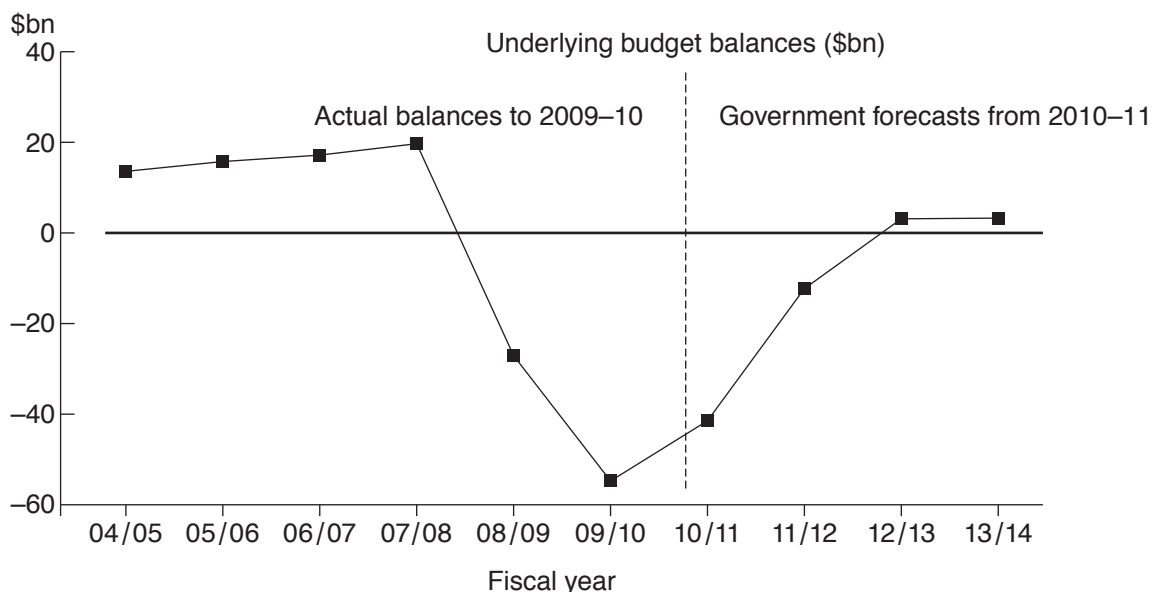
How does fiscal policy affect economic activity and income distribution in the Australian economy? In your response you should refer to the economic information provided below.

Of course fiscal policy has always been with us; what has returned in the past couple of years is the use of active discretionary fiscal policy as a counter-cyclical tool.

DAVID GRUEN, 2009

Source: The Treasury - Adapted speech by Dr David Gruen, Australian Business Economists Annual Forecasting Conference 2009, The Return of Fiscal Policy - 8 December 2009

Australian Government Budget Balance



OR

In your answer you will be assessed on how well you:

- demonstrate knowledge and understanding relevant to the question
 - use the information provided
 - apply relevant economic terms, concepts, relationships and theory
 - present a sustained, logical and cohesive response
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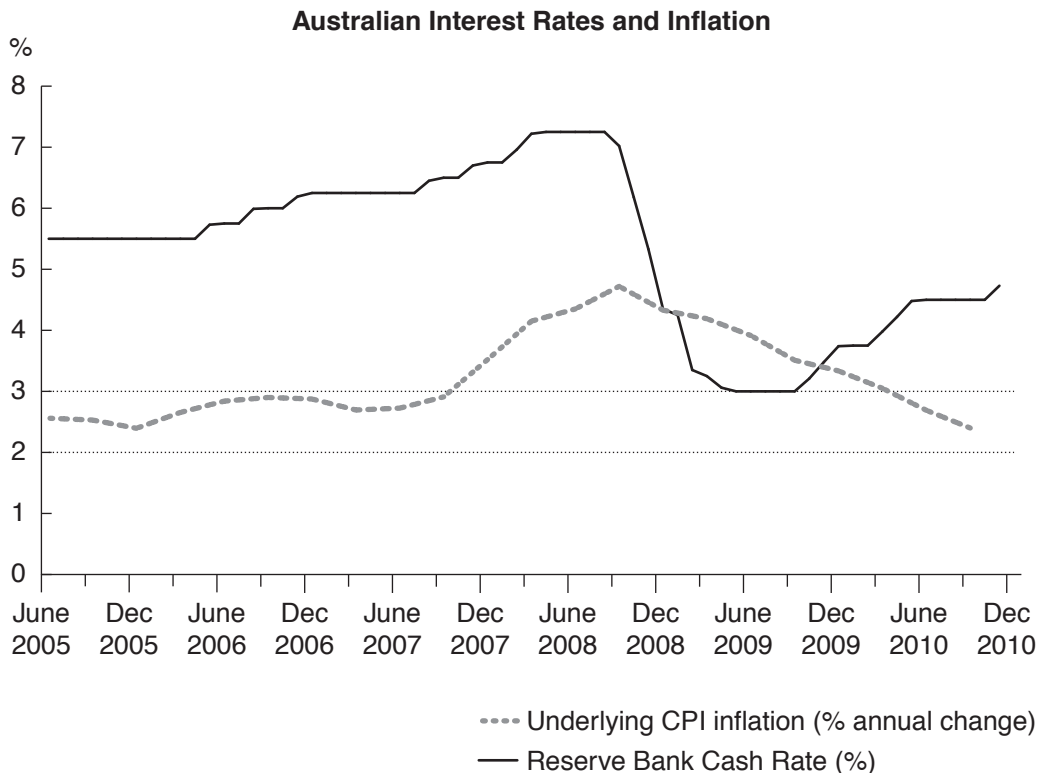
Question 26 (20 marks)

How does monetary policy affect inflation and unemployment in the Australian economy?
In your response you should refer to the economic information provided below.

An important feature of inflation-targeting frameworks is that they are forward looking. We know that it takes time for changes in monetary policy to have their full effect on the economy.

PHILIP LOWE, 2010

Source: Reserve Bank of Australia - Adapted speech by Philip Lowe, Address to Australian Business Economics Annual Forecasting Conference Dinner, Sydney, 8 December 2010



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:

- demonstrate knowledge and understanding relevant to the question
 - apply relevant economic information, terms, concepts, relationships and theory
 - present a sustained, logical and cohesive response
-

Question 27 (20 marks)

Discuss the effects of microeconomic reform on product and factor markets in the Australian economy.

OR

Question 28 (20 marks)

Discuss the impact of changes in the domestic and global economy on Australia's exchange rate.

End of paper

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