

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

2012

**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

Total marks – 100

Section I Pages 2–8

20 marks

- Attempt Questions 1–20
- Allow about 35 minutes for this section

Section II Pages 9–19

40 marks

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

Section III Pages 21–22

20 marks

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

Section IV Page 23

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 classified as a trading bloc?
 - (A) United Nations (UN)
 - (B) European Union (EU)
 - (C) Group of Twenty (G20)
 - (D) Organisation for Economic Cooperation and Development (OECD)

- 2 What was one of the objectives of the national wage system established by the *Fair Work Act 2009*?
 - (A) To reduce the number of awards
 - (B) To replace enterprise agreements
 - (C) To reduce the national minimum wage
 - (D) To remove the safety net protection for low paid workers

- 3 Which of the following is most likely to occur as a country becomes more economically developed?
 - (A) Education levels decrease
 - (B) Labour productivity increases
 - (C) Reliance on foreign aid increases
 - (D) Agricultural production as a share of GDP increases

- 4 What are the Reserve Bank of Australia's main objectives in implementing monetary policy?
 - (A) Price stability and full employment
 - (B) Price stability and a reduction in national debt
 - (C) Full employment and an increase in national savings
 - (D) Full employment and a more equal distribution of income

5 The table shows selected data for an economy.

<i>Year</i>	<i>Real GDP (\$bn)</i>	<i>Consumer Price Index</i>	<i>Unemployment rate (%)</i>
1	4000	100	5
2	3900	101	8

For Year 2, which policy mix is most appropriate for policy makers focused ONLY on employment outcomes?

- (A) Expansionary fiscal policy and expansionary monetary policy
- (B) Contractionary fiscal policy and expansionary monetary policy
- (C) Expansionary fiscal policy and contractionary monetary policy
- (D) Contractionary fiscal policy and contractionary monetary policy

6 The table shows employment data for an economy.

	<i>Year 1</i>	<i>Year 2</i>
Part-time employed persons	200 000	210 000
Full-time employed persons	600 000	640 000
Unemployed persons	100 000	110 000
Working age population	1 500 000	1 570 000

Based on the data in the table, what is the change in the labour force between Year 1 and Year 2?

- (A) 40 000
- (B) 50 000
- (C) 60 000
- (D) 70 000

7 The table shows selected data for an economy.

<i>Components of National Income</i>	<i>\$ billion (\$bn)</i>
Savings	40
Government expenditure	50
Exports	80
Taxation	60
Investment	40
Imports	70

Based on the information in the table, which of the following is correct?

- (A) There is a trade deficit.
- (B) There is a budget surplus.
- (C) Injections are greater than leakages.
- (D) Leakages are greater than injections.

8 The unemployment rate rises from 4% to 6%. What is the most likely impact on the Federal Government's income tax revenues and social security payments?

	<i>Income tax revenues</i>	<i>Social security payments</i>
(A)	Increase	Increase
(B)	Decrease	Decrease
(C)	Increase	Decrease
(D)	Decrease	Increase

9 All other things being equal, what impact will a decrease in domestic interest rates have on consumer spending and on the household savings rate?

	<i>Consumer spending</i>	<i>Household savings rate</i>
(A)	Falls	Falls
(B)	Rises	Rises
(C)	Falls	Rises
(D)	Rises	Falls

- 10 The Reserve Bank of Australia sells government securities. What is the most likely effect on the supply of cash in Exchange Settlement accounts and on interest rates?

	<i>Supply of cash in Exchange Settlement accounts</i>	<i>Interest rates</i>
(A)	Decrease	Decrease
(B)	Increase	Decrease
(C)	Decrease	Increase
(D)	Increase	Increase

- 11 The table shows selected data for an economy with a floating exchange rate.

<i>Balance of payments components</i>	<i>\$ billion (\$bn)</i>
Exports	?
Imports	700
Net Services	100
Net primary income (net income)	-150
Net secondary income (net transfers)	50
Balance on the capital and financial account	200

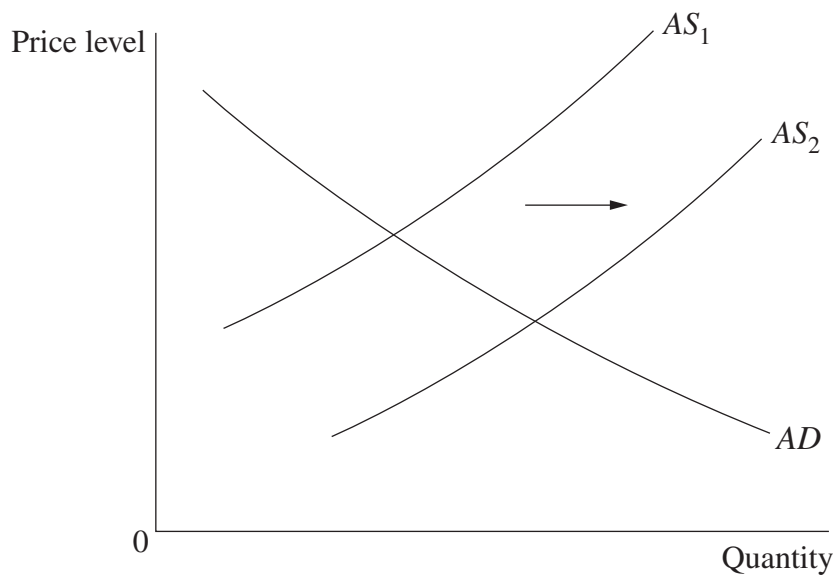
From the data, what is the value of exports?

- (A) \$900bn
 (B) \$700bn
 (C) \$500bn
 (D) \$300bn
- 12 Which of the following government policy decisions would be most suitable for achieving environmental sustainability?
- (A) Impose a tax on firms that cause either a positive or negative externality
 (B) Pay a subsidy to firms that cause either a positive or negative externality
 (C) Impose a tax on firms that cause a positive externality and pay a subsidy to firms that cause a negative externality
 (D) Pay a subsidy to firms that cause a positive externality and impose a tax on firms that cause a negative externality

13 Which of the following statements best applies to public goods?

- (A) These goods are subject to over-pricing.
- (B) There are fixed supplies of these goods.
- (C) Consumers must pay to use these goods.
- (D) Consumers can access these goods without paying directly for them.

14 The following diagram shows aggregate demand (AD) and aggregate supply (AS) curves for the Australian economy.



All other things being equal, which of the following is most likely to cause the shift in the aggregate supply curve from AS_1 to AS_2 ?

- (A) An increase in the budget surplus
- (B) An increase in labour productivity
- (C) An increase in the minimum wage for casual workers
- (D) An increase in interest rates by the Reserve Bank of Australia

- 15 The table shows population and employment data for an economy.

<i>Year</i>	<i>Working age population</i> (million)	<i>Employed</i> (million)	<i>Unemployed</i> (million)
1	30	21	3
2	40	27	3

Which of the following statements is correct for Year 2 compared to Year 1?

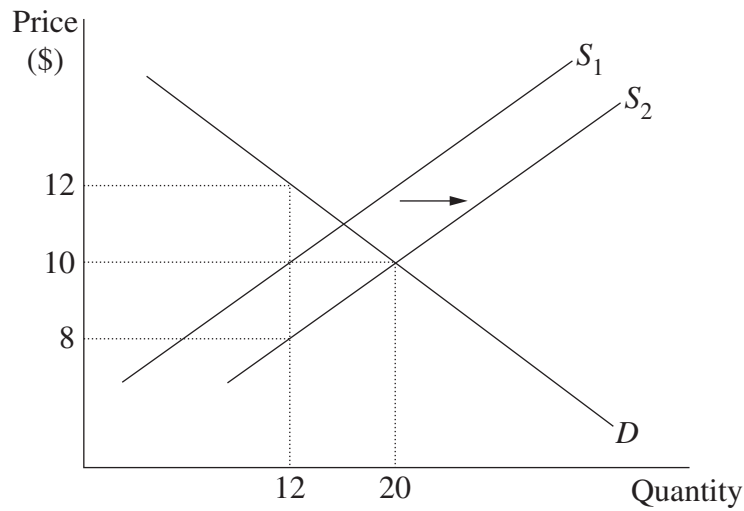
- (A) Year 2 has a lower participation rate and lower unemployment rate.
(B) Year 2 has a lower participation rate and higher unemployment rate.
(C) Year 2 has a higher participation rate and lower unemployment rate.
(D) Year 2 has a higher participation rate and higher unemployment rate.
- 16 All other things being equal, which of the following is most likely to cause an increase in Australia's current account deficit?
- (A) A decrease in national savings
(B) A decrease in Australian overseas aid
(C) An increase in the Federal Government's budget surplus
(D) An increase in the number of overseas students studying in Australia
- 17 The table shows the exchange rate of the Australian dollar (\$A) expressed as units of foreign currency per \$A.

<i>Year</i>	<i>Euro per \$A1</i>	<i>\$US per \$A1</i>	<i>Yen per \$A1</i>
1	0.7	1.10	80
2	0.8	1.00	90

How has the exchange rate of the Australian dollar changed in Year 2 compared to Year 1?

- (A) It has appreciated against the Euro and depreciated against the Yen.
(B) It has depreciated against the Euro and appreciated against the Yen.
(C) It has appreciated against the Euro and depreciated against the \$US.
(D) It has depreciated against the Euro and appreciated against the \$US.

- 18 The diagram shows the impact of a subsidy paid to domestic producers on the price and quantity of beach towels. Assume that the equilibrium price of beach towels with the subsidy is \$10 per towel.



From the diagram, what is the subsidy (per towel) paid to domestic producers?

- (A) \$2
 (B) \$4
 (C) \$8
 (D) \$12
- 19 An increase in investment of \$5000 increases the equilibrium level of national income by \$20000. What is the marginal propensity to consume (MPC)?
- (A) 0.2
 (B) 0.25
 (C) 0.75
 (D) 0.8
- 20 Which of the following is most likely to reduce Australia's import volumes?

	<i>Economic activity in Australia</i>	<i>Australian dollar</i>
(A)	Recession	Appreciation
(B)	Expansion	Depreciation
(C)	Expansion	Appreciation
(D)	Recession	Depreciation

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.

Extra writing space is provided on pages 18 and 19. If you use this space, clearly indicate what question you are answering.

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Please turn over

Question 21 (10 marks)

(a) Distinguish between *import tariff* and *import quota*. 2

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(b) Outline TWO reasons for the protection of domestic industries. 4

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Do NOT write in this area.

Question 21 continues on page 11

Question 21 (continued)

- (c) Outline an economic benefit and an economic cost of a free trade agreement involving Australia. 4

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End of Question 21

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Question 22 (10 marks)

- (a) The consumer price index (CPI) is 120 in Year 1 and 126 in Year 2. 1

Calculate the inflation rate between Year 1 and Year 2.

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- (b) What is the difference between the *headline rate* and the *underlying rate* of CPI inflation? 2

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- (c) How might inflationary expectations affect inflation? 3

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Question 22 continues on page 13

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Question 22 (continued)

- (d) Explain the possible effects on the domestic economy if domestic inflation is high relative to inflation in other countries. 4

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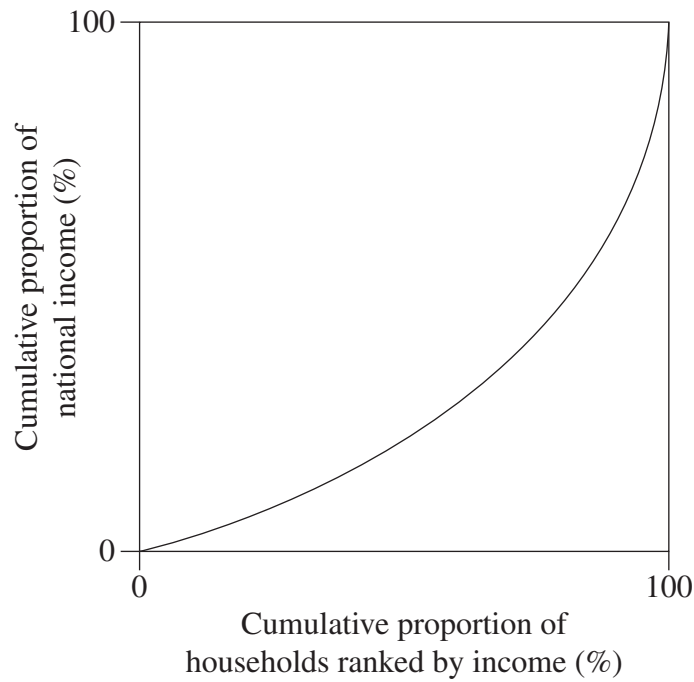
End of Question 22

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Question 23 (10 marks)

(a) The diagram shows the Lorenz Curve for an economy.

1



On the diagram, draw another Lorenz Curve that represents a MORE equal distribution of income for this economy.

(b) Outline an economic benefit of income inequality.

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Question 23 continues on page 15

Do NOT write in this area.

Question 23 (continued)

- (c) Why are average weekly earnings for males higher than average weekly earnings for females in Australia? 3

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- (d) Explain the ways in which fiscal policy can reduce income inequality. 4

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End of Question 23

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Question 24 (10 marks)

- (a) What is the difference between *underemployment* and *hidden unemployment*? **2**

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- (b) Why might changes in underemployment NOT affect the unemployment rate? **2**

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Question 24 continues on page 17

Do NOT write in this area.

Question 24 (continued)

- (c) How might an increase in the school leaving age affect labour force participation and unemployment? 3

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- (d) How would an increase in the minimum wage affect the labour market? Assume that the minimum wage is above the equilibrium wage. 3

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Section II Extra writing space

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Section II Extra writing space

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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 the Sections III and IV Writing Booklet. Extra writing booklets are available.

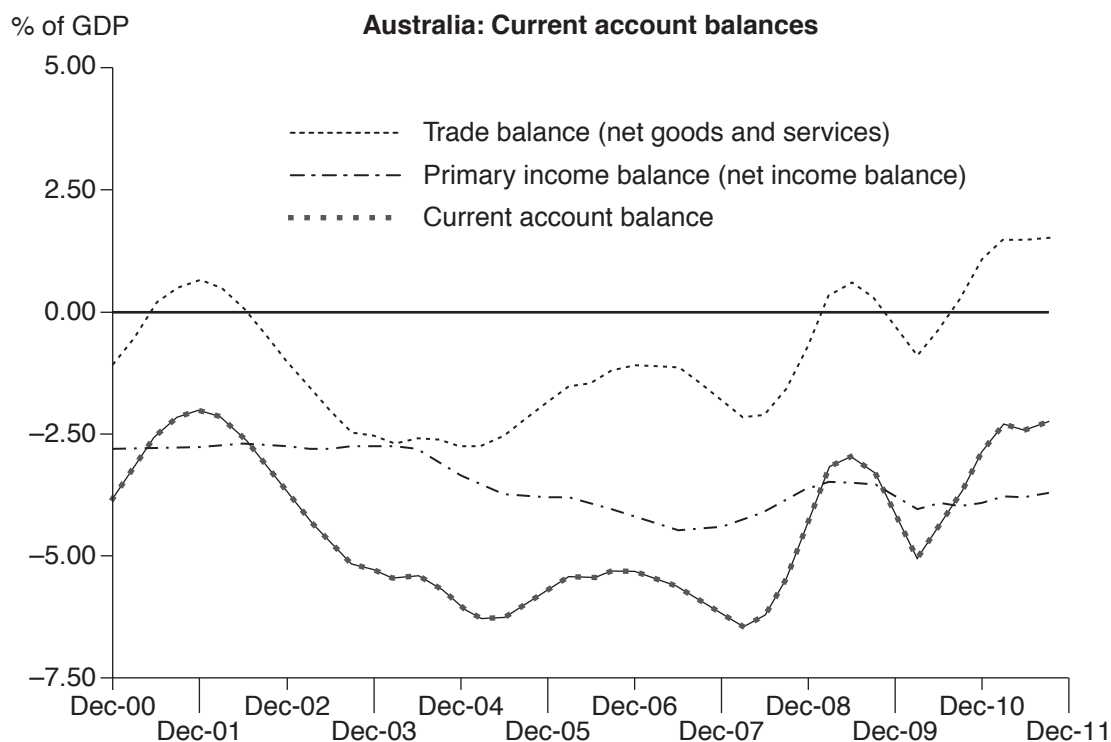
In your answer you will be assessed on how well you:

- 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)

Analyse the impact of changes in the global economy on Australia's Balance of Payments. In your response, you should refer to the economic information provided.

Traditionally, Australia's current account deficits have been financed by foreign capital attracted to relatively high domestic interest rates... sourced from the excess savings of countries such as Japan and more recently China.



Balance of Payments and International Investment Position; Catalogue #5302.0, March 2012, ABS data used with permission from the Australian Bureau of Statistics

OR
- 21 -

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 26 (20 marks)

Analyse the impact of changes in the global economy on the structure of industry in the Australian economy. In your response, you should refer to the economic information provided.

The long term rise in the services share of GDP in the Australian economy has recently come under pressure as a result of increased competition from foreign providers.

Australia: Industry shares of GDP

Awaiting copyright

Section IV

20 marks

Attempt either Question 27 or Question 28

Allow about 35 minutes for this section

Answer the question in the Sections III and IV 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)

For an economy other than Australia, discuss the effects of globalisation on economic growth and the quality of life.

OR

Question 28 (20 marks)

Discuss the effectiveness of economic policies in achieving the Australian government's economic objectives.

End of paper

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