

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

2013

**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

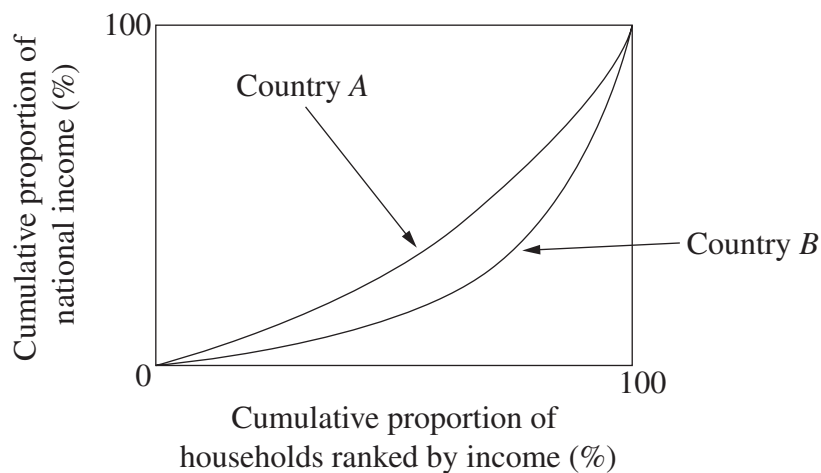
Allow about 35 minutes for this section

Use the multiple-choice answer sheet for Questions 1–20.

- 1 Which of the following international organisations is most likely to be involved in financing the construction of a dam in a developing country?
 - (A) The World Bank
 - (B) The World Trade Organisation
 - (C) The International Monetary Fund
 - (D) The Organisation for Economic Cooperation and Development

- 2 What is the most common reason given for a country to increase tariff protection?
 - (A) To increase trade volumes
 - (B) To maintain domestic employment
 - (C) To reduce the rate of domestic inflation
 - (D) To lower the level of domestic interest rates

- 3 The diagram shows the Lorenz curves for Country A and Country B.



- Which of the following statements is most likely to explain the different income distribution in Country A and Country B?
- (A) Country A has higher rates of saving than Country B.
 - (B) Country A has higher GDP per capita than Country B.
 - (C) Country A has higher social welfare spending than Country B.
 - (D) Country A has higher incentives for entrepreneurs than Country B.
- 4 Which of the following statements about free trade agreements is correct?
- (A) They reduce trade between member countries.
 - (B) They treat member and non-member countries in the same way.
 - (C) They can divert trade from efficient non-member countries to inefficient member countries.
 - (D) They prevent member countries entering into bilateral free trade agreements with non-members.
- 5 Which of the following is likely to encourage the hidden unemployed to enter the labour force?
- (A) A reduction in child-care costs
 - (B) An increase in the unemployment rate
 - (C) An increase in marginal income tax rates
 - (D) A reduction in funding of traineeship programs

- 6 Which of the following discretionary changes to taxation and transfer payments is most likely to have the greatest expansionary effect on the economy?

	<i>Taxation</i>	<i>Transfer payments</i>
(A)	Increases	Increase
(B)	Decreases	Decrease
(C)	Decreases	Increase
(D)	Increases	Decrease

- 7 There is an increase in the minimum rate of employer superannuation contributions from 9% to 12% of wages.

Which of the following is the most likely effect of this increase?

- (A) Increased cost inflation
 (B) Decreased cost inflation
 (C) Increased demand inflation
 (D) Decreased demand inflation
- 8 The non-accelerating inflation rate of unemployment (NAIRU) is most likely to be reduced by increasing
- (A) spending on retraining job seekers.
 (B) the level of unemployment benefits.
 (C) protection levels for domestic industries.
 (D) spending on public infrastructure projects.
- 9 Which of the following describes the market equilibrium price and output in the presence of a negative externality?

	<i>Price</i>	<i>Output</i>
(A)	Too high	Too high
(B)	Too low	Too low
(C)	Too low	Too high
(D)	Too high	Too low

- 10 The table shows current account data for a hypothetical economy with a floating exchange rate.

<i>Components of the current account</i>	<i>\$ billion (\$bn)</i>
Exports of goods and services	100
Imports of goods and services	120
Net primary income	-140
Net secondary income	-40

- What is the balance on the capital account?
- (A) A deficit of \$160 billion
 - (B) A surplus of \$160 billion
 - (C) A deficit of \$200 billion
 - (D) A surplus of \$200 billion
- 11 Which of the following types of unemployment is NOT affected by the rise in mining sector activity or the decline in manufacturing sector activity?
- (A) Seasonal
 - (B) Frictional
 - (C) Structural
 - (D) Long-term
- 12 Which of the following is most likely to increase a manufacturing firm's productivity?
- (A) An increase in personal income tax rates
 - (B) An increase in investment in capital goods
 - (C) A decrease in demand by consumers for the firm's product
 - (D) A decrease in the size of the import quota for similar products

- 13 Which combination of actions by the Reserve Bank of Australia is most likely to cause a rise in the value of the Australian dollar?

	<i>Foreign currency</i>	<i>Cash rate</i>
(A)	Buy	Increase
(B)	Sell	Decrease
(C)	Sell	Increase
(D)	Buy	Decrease

- 14 Which combination of changes in interest rates and the value of the Australian dollar is most likely to increase aggregate demand in the Australian economy?

	<i>Interest rates</i>	<i>Value of the Australian dollar</i>
(A)	Increase	Appreciates
(B)	Decrease	Depreciates
(C)	Decrease	Appreciates
(D)	Increase	Depreciates

- 15 There is a decline in the marginal propensity to consume (MPC).

Which combination of changes in the simple multiplier and equilibrium income is most likely to result?

	<i>Simple multiplier</i>	<i>Equilibrium income</i>
(A)	Increases	Increases
(B)	Decreases	Decreases
(C)	Decreases	Increases
(D)	Increases	Decreases

- 16 Australia's interest rates are reduced while those of its major trading partners remain unchanged.

Which combination of changes in the supply of \$A and the trade weighted index is most likely to result?

	<i>Supply of \$A</i>	<i>Trade weighted index</i>
(A)	Increases	Increases
(B)	Decreases	Decreases
(C)	Decreases	Increases
(D)	Increases	Decreases

- 17 Which combination of actions does the Reserve Bank of Australia need to take in order to implement a contractionary monetary policy?

	<i>Commonwealth Government Securities</i>	<i>Domestic money supply</i>
(A)	Buy	Increase
(B)	Sell	Decrease
(C)	Sell	Increase
(D)	Buy	Decrease

- 18 Australia's headline annual (CPI) inflation rate has fallen from 3% to 2%, while the underlying annual inflation rate remains unchanged at 3%.

The divergence between these two measures of inflation is most likely due to

- (A) a decrease in house prices.
- (B) an increase in house prices.
- (C) a decrease in world oil supply.
- (D) an increase in world oil supply.

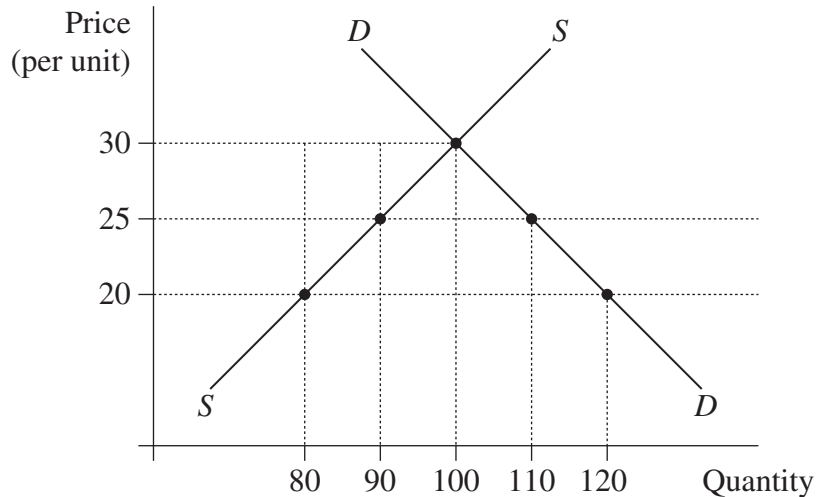
- 19 The following table shows the volume and price of exports and imports for two years.

	Exports		Imports	
<i>Year</i>	<i>Volume</i>	<i>Price</i>	<i>Volume</i>	<i>Price</i>
Year 1	100	100	100	100
Year 2	105	110	110	105

How have the terms of trade and the volume of net exports changed between Year 1 and Year 2?

	<i>Terms of trade</i>	<i>Net exports</i>
(A)	Risen	Increased
(B)	Fallen	Decreased
(C)	Fallen	Increased
(D)	Risen	Decreased

- 20 The diagram shows the effect of a tariff on domestic supply (*SS*) and demand (*DD*). The free trade price is \$20. The current tariff is \$10.



If the government reduces the tariff to \$5, which combination of outcomes is correct?

	<i>Tariff revenue</i>	<i>Domestic output</i>
(A)	Rises	Rises
(B)	Falls	Falls
(C)	Falls	Rises
(D)	Rises	Falls

Economics

--	--	--	--	--

Centre Number

Section II

40 marks

Attempt Questions 21–24

**Allow about 1 hour and 15 minutes
for this section**

--	--	--	--	--	--	--	--	--	--

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 which question you are answering.

Write your Centre Number and Student Number at the top of this page.

Please turn over

Do NOT write in this area.

Question 21 (10 marks)

- (a) A highway currently passes through a country town. The government is proposing to build a bypass that diverts highway traffic away from the town.

4

Discuss the costs and benefits of this proposal.

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

Question 21 continues on page 11

Do NOT write in this area.

Question 22 (10 marks)

- (a) A hypothetical economy has a simple multiplier of 2.5.

Calculate the change in national income that would result from an increase in investment of \$100 million. **1**

.....
.....

- (b) Outline how economic growth in a major trading partner might influence economic growth in Australia. **2**

.....
.....
.....
.....
.....
.....

- (c) How will an increase in Australia's marginal propensity to save (MPS) affect Australia's economic growth? **3**

.....
.....
.....
.....
.....
.....
.....
.....
.....
.....

Do NOT write in this area.

Question 22 continues on page 13

Question 22 (continued)

- (d) Explain the effects of a reduced rate of economic growth on the Australian Government budget. **4**

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

End of Question 22

Do NOT write in this area.

Question 23 (10 marks)

(a) Distinguish between the current account deficit and foreign debt. **2**

.....
.....
.....
.....
.....
.....
.....

(b) Explain how the level of national savings can influence the size of the current account. **3**

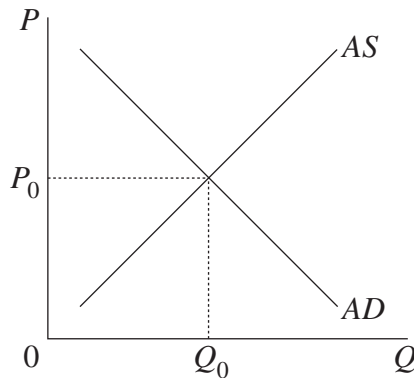
.....
.....
.....
.....
.....
.....
.....
.....
.....
.....

Do NOT write in this area.

Question 23 continues on page 15

Question 24 (10 marks)

- (a) The following diagram shows aggregate demand and aggregate supply curves for a hypothetical economy. 2



On the diagram, draw the new curve that results if there is a fall in labour productivity. Label the new equilibrium price P_1 and the new equilibrium quantity Q_1 .

- (b) Outline an effect of product market deregulation on inflation. 2

.....

.....

.....

.....

.....

.....

- (c) Outline a feature of a centralised labour market policy. 2

.....

.....

.....

.....

.....

.....

Question 24 continues on page 17

Do NOT write in this area.

Question 24 (continued)

- (d) Outline an advantage and a disadvantage of moving from a fixed exchange rate to a floating exchange rate system.

4

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

End of Question 24

Do NOT write in this area.

Section II Extra writing space

If you use this space, clearly indicate which question you are answering.

Do NOT write in this area.

BLANK PAGE

Do NOT write in this area.

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.

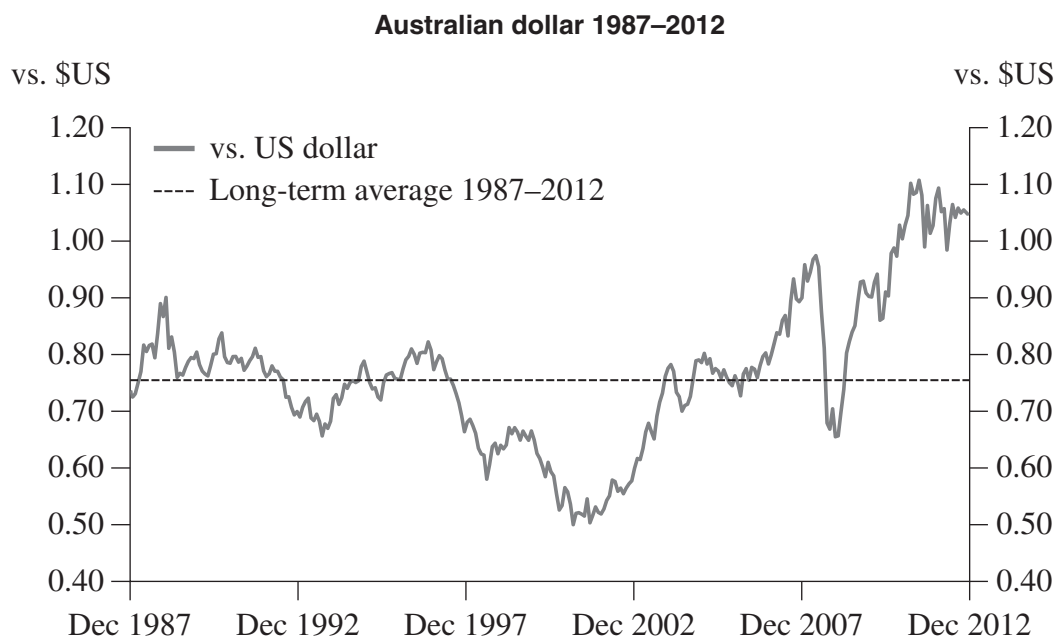
In your answer you will be assessed on how well you:

- 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)

Explain how movements in the Australian dollar can affect the performance of the Australian economy. In your response, you should refer to the economic information provided.

The high Australian dollar has had a major moderating effect on the resources boom. In doing so, it has created some winners and some losers.



OR

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

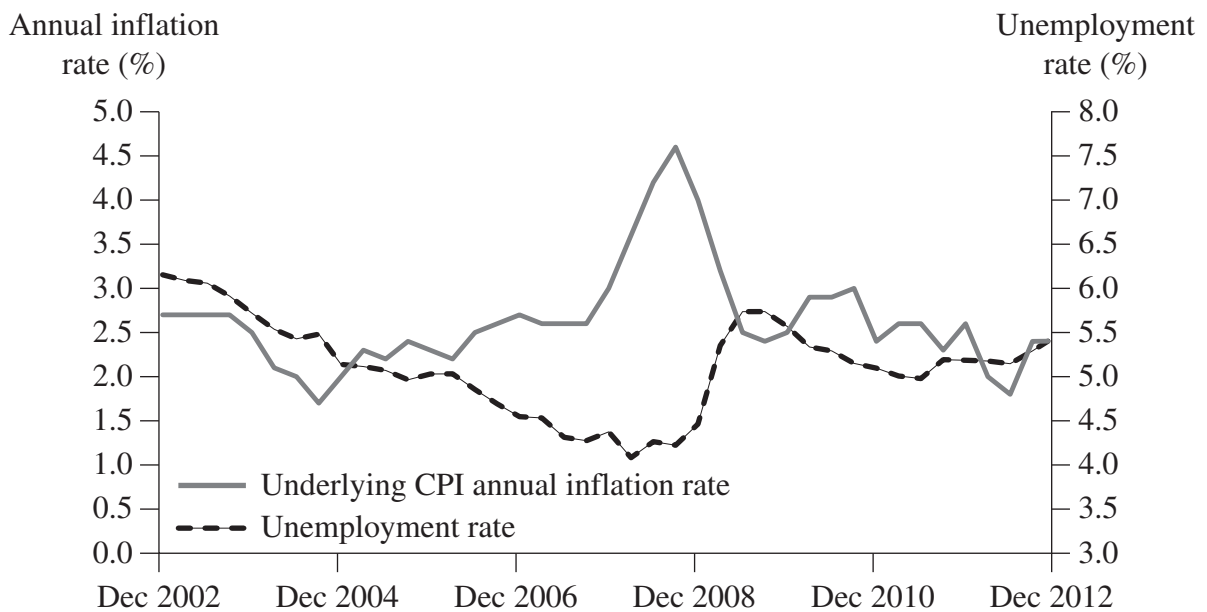
- demonstrate knowledge and understanding relevant to the question
 - use the information provided
 - apply relevant economic terms, concepts, relationships and theory
 - present a sustained, logical and cohesive response
-

Question 26 (20 marks)

Explain the effects of Australia's macroeconomic policy mix on economic growth and inflation in the domestic economy. In your response, you should refer to the economic information provided.

In early 2008, before the global financial crisis (GFC), inflation was the major concern of policy makers. Post-GFC, their focus has shifted to economic growth.

Australian unemployment and underlying inflation 2002–2012



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)

Analyse the effects of domestic AND global free trade and protection policies on the Australian economy.

OR

Question 28 (20 marks)

Analyse the causes of unemployment and its effects on the Australian economy.

End of paper

BLANK PAGE