

# 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 2–9

#### 20 marks

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

### Section II Pages 13–23

#### 40 marks

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

### Section III Pages 25–26

#### 20 marks

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

### Section IV Page 27

#### 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.

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- 1** Which of the following is a trading bloc?

  - (A) The European Union (EU)
  - (B) The World Trade Organisation (WTO)
  - (C) The General Agreement on Tariffs and Trade (GATT)
  - (D) The Organisation for Economic Cooperation and Development (OECD)
  
- 2** Of which of the following groups is Australia a member?

  - (A) The Group of 8 (G8)
  - (B) The Group of 20 (G20)
  - (C) The North America Free Trade Agreement (NAFTA)
  - (D) The Association of South-East Asian Nations (ASEAN)
  
- 3** Which of the following would be most likely to occur if there was a recession in the domestic economy?

  - (A) Defence spending would increase.
  - (B) Transfer payments would decrease.
  - (C) GST taxation receipts would increase.
  - (D) Income taxation receipts would decrease.
  
- 4** In which of the following circumstances could the International Monetary Fund (IMF) be called in to assist a country?

  - (A) A trade dispute
  - (B) A financial crisis
  - (C) A foreign investment dispute
  - (D) An infrastructure funding shortage

5 In 1983 Australia moved from a fixed to a floating exchange rate.

Which of the following has been a disadvantage of the floating exchange rate?

- (A) Lower foreign currency reserves
- (B) Higher foreign currency reserves
- (C) Increased exchange rate volatility
- (D) Decreased exchange rate volatility

6 A second airport is to be built in Sydney.

Which of the following best describes a positive externality likely to arise from this project?

- (A) Reduced job opportunities around the second airport
- (B) Increased traffic congestion around the second airport
- (C) Reduced traffic congestion around the existing airport
- (D) Increased job opportunities around the existing airport

7 An economy is operating at its natural rate of unemployment.

What would be the long term effect on the unemployment rate and the participation rate of an increase in labour market flexibility?

	<i>Unemployment rate</i>	<i>Participation rate</i>
(A)	Increases	Increases
(B)	Decreases	Increases
(C)	Increases	Decreases
(D)	Decreases	Decreases

- 8 The table shows selected data for an economy.

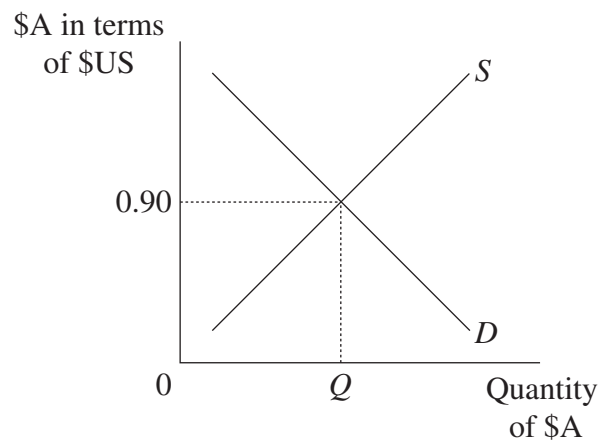
<i>Year</i>	<i>Nominal GDP</i>	<i>Real GDP</i>
2013	100	100
2014	105	103

According to the data, what has happened to the consumer price index (CPI) between 2013 and 2014?

- (A) The CPI has fallen by less than the change in nominal GDP.
  - (B) The CPI has fallen by more than the change in nominal GDP.
  - (C) The CPI has risen by less than the change in nominal GDP.
  - (D) The CPI has risen by more than the change in nominal GDP.
- 9 If a government stopped funding education, what would happen to the market equilibrium price and quantity of education?

	<i>Equilibrium price</i>	<i>Equilibrium quantity</i>
(A)	Falls	Rises
(B)	Falls	Falls
(C)	Rises	Rises
(D)	Rises	Falls

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



Which combination of shifts in the demand and supply curves must result in a depreciation of the Australian dollar?

	<i>Demand curve shift</i>	<i>Supply curve shift</i>
(A)	Left	Right
(B)	Left	Left
(C)	Right	Left
(D)	Right	Right

- 11 Which of the following best illustrates the effect of reduced competition on product markets?

	<i>Equilibrium price</i>	<i>Equilibrium quantity</i>
(A)	Decreases	Increases
(B)	Decreases	Decreases
(C)	Increases	Increases
(D)	Increases	Decreases

- 12 The table shows consumer price index (CPI) data for a hypothetical economy.

<i>Year</i>	<i>CPI</i>
2011	145
2012	150
2013	156

What is the inflation rate for this economy for 2013?

- (A) 3%  
 (B) 4%  
 (C) 5%  
 (D) 6%
- 13 Australia's mining boom has resulted in a significant increase in foreign investment.

Which of the following shows the effects of this increase on Australia's Balance of Payments?

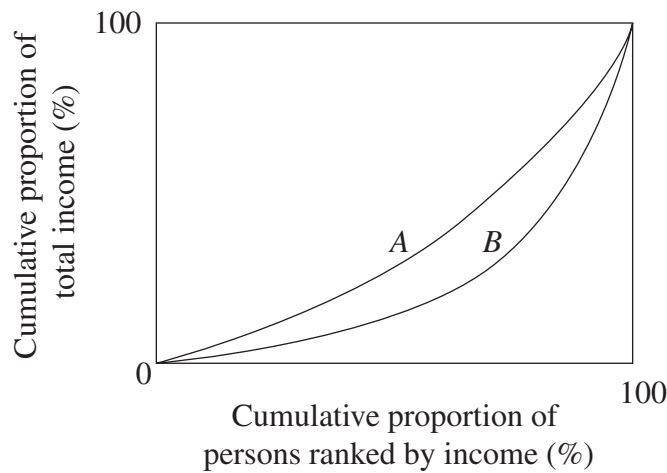
	<i>Primary income account</i>	<i>Capital and financial account</i>
(A)	Credit increase	Debit increase
(B)	Credit increase	Credit increase
(C)	Debit increase	Debit increase
(D)	Debit increase	Credit increase

- 14 The Reserve Bank of Australia decides to implement an expansionary monetary policy.

Which of the following changes to commercial banks' holdings of assets is most likely to occur?

	<i>Commercial banks' holdings of Commonwealth Government securities</i>	<i>Commercial banks' holdings of cash in exchange settlement accounts</i>
(A)	Decrease	Increase
(B)	Increase	Increase
(C)	Decrease	Decrease
(D)	Increase	Decrease

15 The diagram shows the Lorenz curves for a hypothetical economy.



The Lorenz curve has shifted from *A* to *B*.

All other things being equal, which of the following changes might explain this shift?

	<i>Change in the top marginal tax rate</i>	<i>Change in business profits</i>
(A)	Decrease	Increase
(B)	Decrease	Decrease
(C)	Increase	Increase
(D)	Increase	Decrease

16 The table shows components of the Balance of Payments for a hypothetical economy.

<i>Components of the Balance of Payments</i>	<i>\$ billion (bn)</i>
Balance of Goods and Services	10
Net Primary Income	-20
Net Secondary Income	-5
Balance on Capital Account	1
Balance on Financial Account	?

What is the balance on the Financial Account?

- (A) A deficit of \$14 billion
- (B) A deficit of \$16 billion
- (C) A surplus of \$14 billion
- (D) A surplus of \$16 billion

17 Australia has a lower minimum wage for youth than for adults.

Which of the following is most likely to cause an increase in youth unemployment?

	<i>Minimum wage for youth</i>	<i>Minimum wage for adults</i>
(A)	Unchanged	Increase
(B)	Unchanged	Unchanged
(C)	Increase	Increase
(D)	Increase	Unchanged

18 The table shows National Accounts data for consumption (*C*) and national income (*Y*) for a hypothetical economy.

<i>Year</i>	<i>C</i> (\$ million)	<i>Y</i> (\$ million)
1	240	320
2	280	370

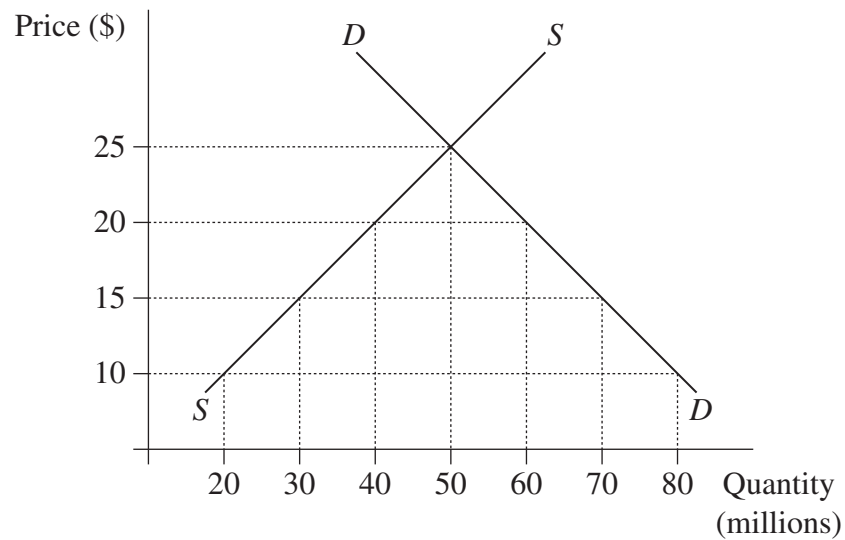
An increase in exports lifted national income by \$100 million in Year 3.

All other things being equal, what was the increase in exports?

- (A) \$20 million
- (B) \$25 million
- (C) \$75 million
- (D) \$80 million



Use the following demand and supply diagram to answer Questions 19 and 20.



- 19** Consider an economy in which there is a tariff of \$15 in addition to the world price of \$10.

If the government reduces the tariff from \$15 to \$10, what will be the change in tariff revenue?

- (A) \$100 million
  - (B) \$200 million
  - (C) \$400 million
  - (D) \$600 million
- 20** Consider an economy that operates a free trade policy.

The government is proposing to introduce a \$5 tariff in addition to the world price of \$10.

What import quota could the government introduce to have the same effect on domestic output as a \$5 tariff?

- (A) 20 million units
- (B) 30 million units
- (C) 40 million units
- (D) 60 million units

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# 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 22 and 23. 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.

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**Please turn over**

Do NOT write in this area.

**Question 21** (10 marks)

(a) Distinguish between *local content rules* and *export incentives*.

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(b) The United States Government gives a subsidy to its farmers.

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Explain the likely effects of this policy on farmers and consumers in Australia.

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**Question 21 continues on page 15**

Question 21 (continued)

(c) Discuss the reasons that a domestic industry could give to argue for its protection.

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**End of Question 21**

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**Question 22** (10 marks)

- (a) Briefly explain ONE cause of an exchange rate depreciation. 2

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- (b) Explain how Australia's trade weighted index (TWI) can decline even as the Australian dollar appreciates against the euro. 3

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**Question 22 continues on page 17**



Question 22 (continued)

- (c) Analyse the effects of rising interest rates on both the current account and the capital and financial account of the balance of payments.

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**End of Question 22**

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**Question 23** (10 marks)

- (a) What is the difference between the *working age population* and the *labour force*? 2

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- (b) Explain why an economy's labour force participation rate might decline. 4

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**Question 23 continues on page 19**

Question 23 (continued)

- (c) Explain how a change in the labour force participation rate can affect the federal government's revenues and expenditures.

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**End of Question 23**

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**Question 24** (10 marks)

(a) Explain ONE cost and ONE benefit of microeconomic reform.

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**Question 24 continues on page 21**

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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)

Explain how both labour market policies and fiscal policies can be used to reduce income inequality and wealth inequality. In your response, you should refer to the economic information provided.

An income safety net for all has been a long-term policy goal. The debate has been about whether minimum wages and welfare payments achieve this objective or whether disincentive effects mean that it has been counterproductive for some groups.

**Distribution of Income, Taxes and Government Benefits in Australia, 2009–2010**

(% shares of total income, taxes and benefits paid to/received by different income groups)

	<i>Share of the poorest 20% of income earners</i>	<i>Share of the richest 20% of income earners</i>
Income earned before tax (eg wages and salaries, interest income)	3.3%	45.0%
Less taxes paid:		
Income tax paid	1.2%	56.2%
Indirect taxes paid (eg GST, petrol taxes)	12.5%	30.1%
Plus government benefits received:		
Transfer payments (eg pension, unemployment)	36.5%	2.5%
In-kind payments (eg free health, education)	22.0%	15.3%
Final Income	11.3%	34.7%

OR

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

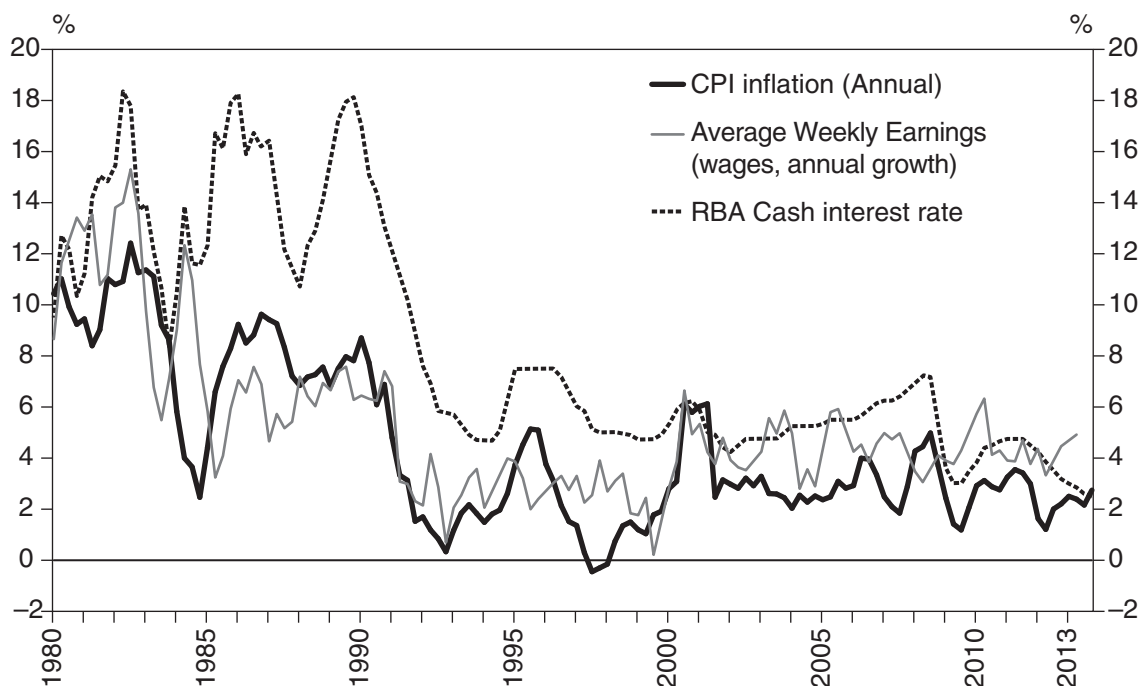
- demonstrate knowledge and understanding relevant to the question
  - use the information provided
  - apply relevant economic terms, concepts, relationships and theory
  - present a sustained, logical and cohesive response
- 

**Question 26** (20 marks)

Explain the causes of inflation and its effects on the Australian economy. In your response, you should refer to the economic information provided.

Australia has benefited from its return to low inflation in the 1990s but... inflation remains an influence on the economy, markets and policy.

**Inflation, wages growth and interest rates in Australia 1980–2013**



## **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.

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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 strategies used to promote both economic growth and development.

**OR**

### **Question 28 (20 marks)**

Discuss the role of government in attempting to achieve environmental sustainability in Australia.

**End of paper**

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