

Economics

General Instructions

- Reading time – 5 minutes
- Working time – 3 hours
- Write using black pen
- 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 21–23

20 marks

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

Section IV Page 24

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 an example of a monetary union?

 - (A) EU
 - (B) APEC
 - (C) ASEAN
 - (D) NAFTA

- 2** Which of the following policies is mainly used to manage inflation?

 - (A) Fiscal policy
 - (B) Monetary policy
 - (C) Competition policy
 - (D) Labour market policy

- 3** Which of the following is most likely to result in an increased budget surplus?

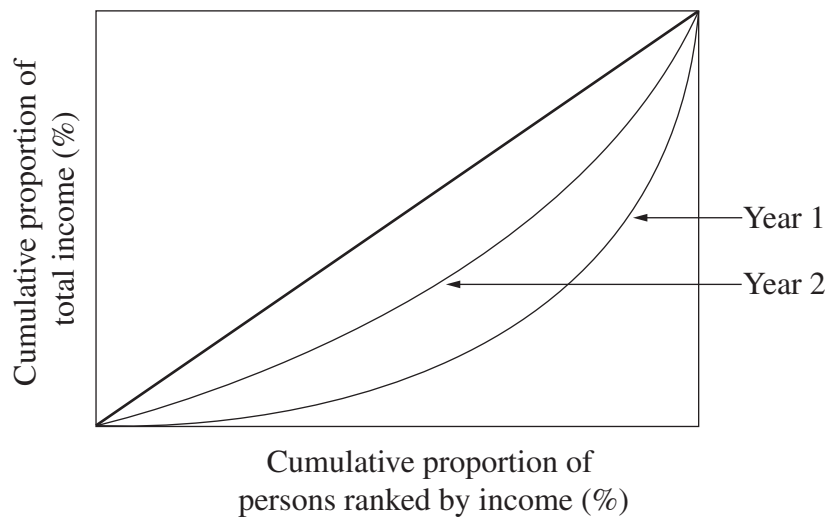
 - (A) Reduced government spending and reduced taxation
 - (B) Increased government spending and reduced taxation
 - (C) Reduced government spending and increased taxation
 - (D) Increased government spending and increased taxation

- 4** Other things being equal, which of the following is most likely to increase if Australia's major trading partners experience an economic slowdown?

 - (A) Australia's GDP growth
 - (B) Australia's unemployment rate
 - (C) Demand for Australia's exports
 - (D) Australia's consumer price index

- 5 A government decides to reduce tariffs on imported goods.
- Other things being equal, what will be the most likely impact on the domestic economy?
- (A) Tariff revenue will increase.
 - (B) Tariff revenue will remain unchanged.
 - (C) There will be a redistribution of income from importers to local producers.
 - (D) There will be a redistribution of income from local producers to importers.
- 6 An increase in which of the following will most likely change a Gini coefficient from 0.3 to 0.4?
- (A) Company tax rates
 - (B) The goods and services tax rate
 - (C) Marginal income tax rates for high income earners
 - (D) Tax rates levied on the profits from the sale of property
- 7 Which of the following best describes a person experiencing frictional unemployment?
- (A) A university student struggling to find work during a recession
 - (B) A summer fruit-picker undertaking full-time training to acquire new skills
 - (C) A self-employed worker whose business has shut down and who plans to start a new business
 - (D) A factory worker who is employed part-time and who is actively seeking to increase their hours of work

8 The diagram refers to the change in the distribution of income in a hypothetical economy.



Which of the following is most likely to increase as a result of the change in income inequality from Year 1 to Year 2?

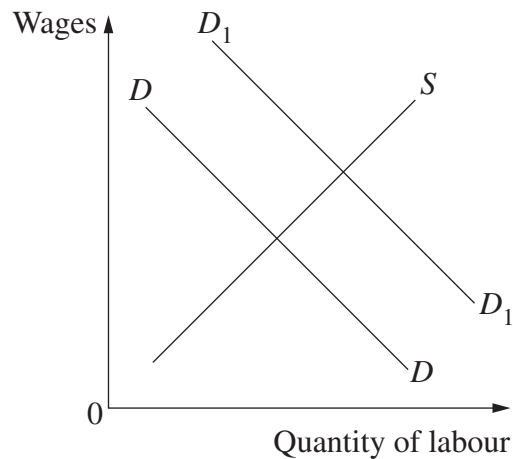
- (A) Consumption
- (B) Labour force mobility
- (C) Risk-taking by entrepreneurs
- (D) Saving and capital investment

9 A government has recently decided to increase the age of retirement.

Which of the following are the most likely impacts of this decision on the labour force participation rate and taxation revenue?

	<i>Impact on the labour force participation rate</i>	<i>Impact on taxation revenue</i>
(A)	Increase	Decrease
(B)	Increase	Increase
(C)	Decrease	Increase
(D)	Decrease	Decrease

- 10 All other things being equal, which of the following is most likely to shift the demand curve for labour from DD to D_1D_1 ?



- (A) An economic downturn in the global economy
(B) An increase in the labour force participation rate
(C) The establishment of minimum employment standards across all industries
(D) The implementation of a decentralised method of determining employment contracts
- 11 A government has changed the method of financing its budget deficit. Instead of borrowing from the domestic private sector, it will now borrow from overseas.

All other things being equal, what is the most likely impact of this change on the domestic economy?

- (A) The foreign debt will decrease.
(B) The budget deficit will decrease.
(C) Current account deficit will increase.
(D) Domestic borrowing costs will increase.

- 12** What is the most likely impact of an increase in the official cash rate on the domestic economy?
- (A) Lower inflationary expectations resulting from a depreciation of the domestic currency
 - (B) Higher inflationary expectations resulting from an appreciation of the domestic currency
 - (C) A redistribution of income and wealth towards those with a relatively high marginal propensity to save
 - (D) A redistribution of income and wealth towards those with a relatively high marginal propensity to consume

- 13** The Australian Government has received a repayment of an interest-free loan made to a developing economy.

How will this be recorded in Australia's balance of payments?

- (A) A debit in the secondary income account
 - (B) A credit in the secondary income account
 - (C) A debit in the capital and financial account
 - (D) A credit in the capital and financial account
- 14** Which of the following is most likely to result in a decline in Australia's terms of trade?

	<i>Demand for Australia's exports</i>	<i>Supply of Australia's exports</i>
(A)	Decreased	Increased
(B)	Increased	Decreased
(C)	Increased	Increased
(D)	Decreased	Decreased

- 15** Which of the following is most likely to allow an infant industry in Australia to benefit from globalisation?
- (A) An increase in Australia's import quotas
 - (B) A decrease in Australia's levels of protection
 - (C) A decrease in Australia's regulation of transnational corporations
 - (D) An increase in Australia's recognition of international educational qualifications

16 The table shows selected data for a hypothetical economy.

<i>Year</i>	<i>Money GDP</i> (\$ millions)	<i>Population</i> (millions)	<i>CPI</i>
1	1000	100	100
2	1500	150	110

All other things being equal, how are real Gross Domestic Product (GDP) and the Human Development Index (HDI) most likely to change from Year 1 to Year 2?

- (A) Real GDP and the HDI both increase.
 - (B) Real GDP and the HDI both decrease.
 - (C) Real GDP decreases and the HDI increases.
 - (D) Real GDP increases and the HDI decreases.
- 17 An increase in which of the following is most likely to lower the non-accelerating inflation rate of unemployment (NAIRU)?
- (A) Official cash rate
 - (B) Government spending
 - (C) Infrastructure investment
 - (D) Use of centralised wage bargaining

18 The table shows hypothetical data for the Australian economy.

<i>Year</i>	<i>\$A in terms of \$US</i>	<i>Headline inflation (%)</i>
1	0.70	2
2	0.75	1

All other things being equal, how did the purchasing power of Australian consumers change overseas and domestically from Year 1 to Year 2?

	<i>Purchasing power of</i> <i>Australians travelling overseas</i>	<i>Purchasing power of Australian</i> <i>consumers domestically</i>
(A)	Increased	Increased
(B)	Decreased	Increased
(C)	Increased	Decreased
(D)	Decreased	Decreased

- 19** The table shows hypothetical data for the Australian economy.

Loans owed by foreigners to Australians (\$ billions)	150
Loans owed by Australians to foreigners (\$ billions)	600
Australian assets owned by foreigners (\$ billions)	100
Foreign assets owned by Australians (\$ billions)	250

What is the value of Australia's Net Foreign Liabilities?

- (A) \$300 billion
 - (B) \$400 billion
 - (C) \$600 billion
 - (D) \$1100 billion
- 20** It can be argued that a public road is NOT a public good because
- (A) travel times vary with usage.
 - (B) the private sector can build and maintain roads.
 - (C) when one car uses the road another car can still use the road.
 - (D) the road is used by both public and private forms of transport.

2016 HIGHER SCHOOL CERTIFICATE EXAMINATION
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. 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) Why might a government prefer to protect an industry with a subsidy rather than a tariff? **2**

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- (b) Explain how removal of a subsidy might promote greater efficiency in an economy. **3**

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Do NOT write in this area.

Question 21 continues on page 11

Question 22 (10 marks)

- (a) Outline the difference between a *private benefit* and a *social benefit*. **2**

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- (b) Explain why developed and developing nations may take different approaches to environmental sustainability. **4**

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Question 22 continues on page 13

Question 22 (continued)

- (c) Explain an advantage and a disadvantage of international environmental agreements in addressing environmental sustainability in the global economy.

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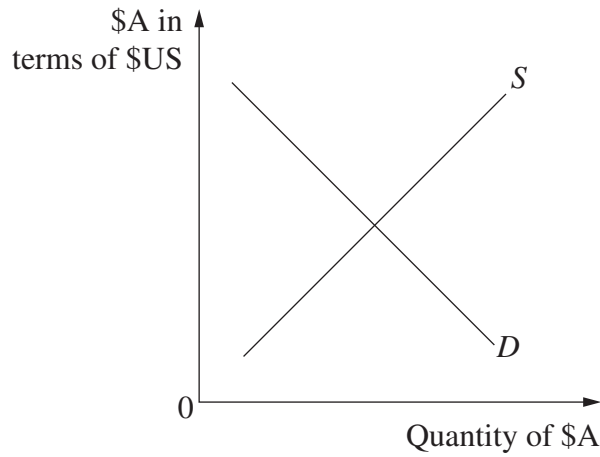
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End of Question 22

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Question 23 (10 marks)

- (a) On the diagram draw a new supply curve that shows a depreciation of the Australian dollar. 1



- (b) Briefly explain why there might be an increase in the supply of Australian dollars. 2

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- (c) Explain how a decrease in an economy's Trade Weighted Index may affect the level of inflation in that economy. 3

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Question 23 continues on page 15

Question 23 (continued)

- (d) Assess the impacts of a depreciation in the Australian dollar on the level of employment in Australia.

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End of Question 23

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Question 24 (10 marks)

- (a) In a hypothetical economy, $MPC = 0.9$. 1

What is the change in national income if investment declines by \$100 million?

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- (b) Explain how changes in the MPC can affect an economy's growth. 4

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Question 24 continues on page 17

Section II extra writing space

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

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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.

Your answer will be assessed on how well you:

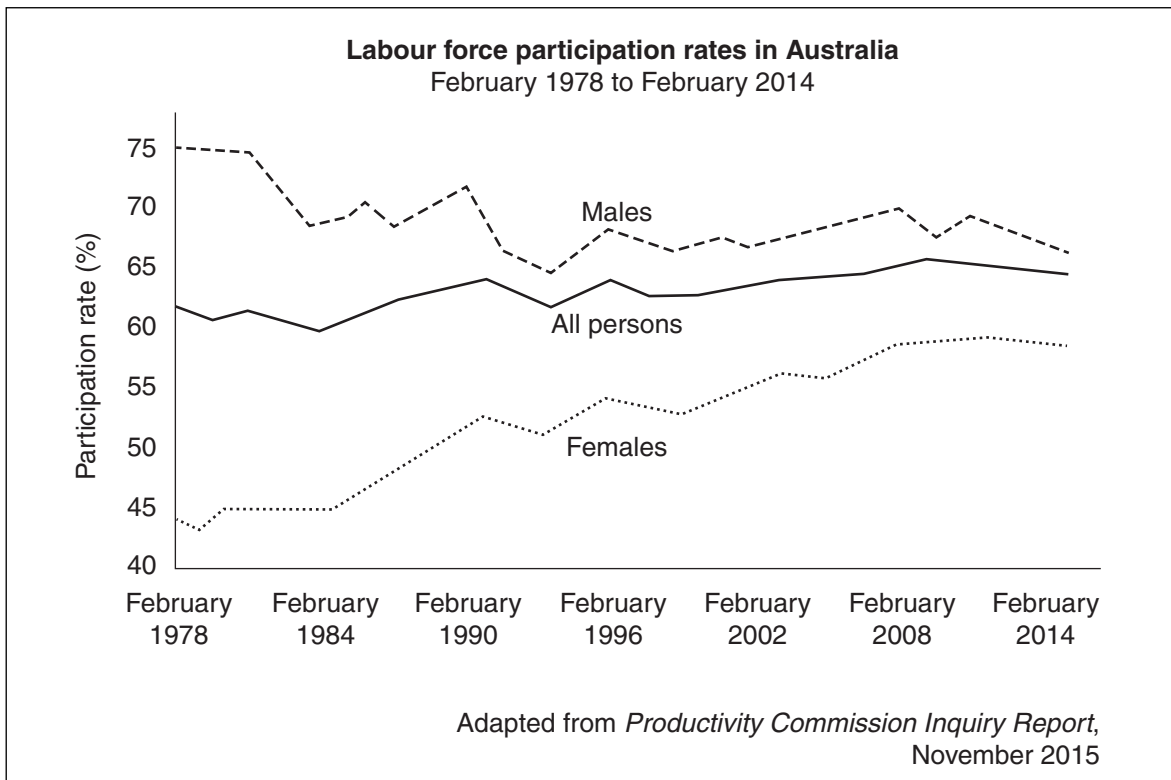
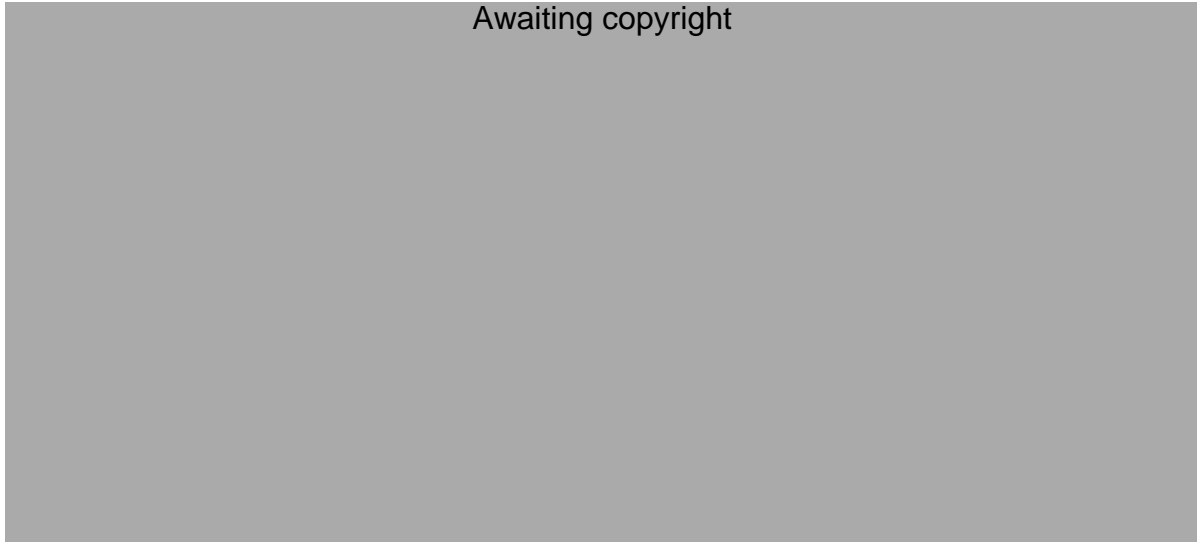
- demonstrate knowledge and understanding relevant to the question
 - use the information provided
 - apply relevant economic terms, concepts, relationships and theory
 - present a sustained, logical and cohesive response
-

Question 25 (20 marks)

Please turn over

Question 25 (20 marks)

Explain how the Australian Government's labour market policies affect both the employed and the unemployed. In your response, refer to the economic information provided.



Source: ABS, Labour Force, Australia, Catalogue No. 6202.0, released 12 March 2015

OR

Question 25 (20 marks)

Explain how the Australian Government’s labour market policies affect both the employed and the unemployed. In your response, refer to the economic information provided.

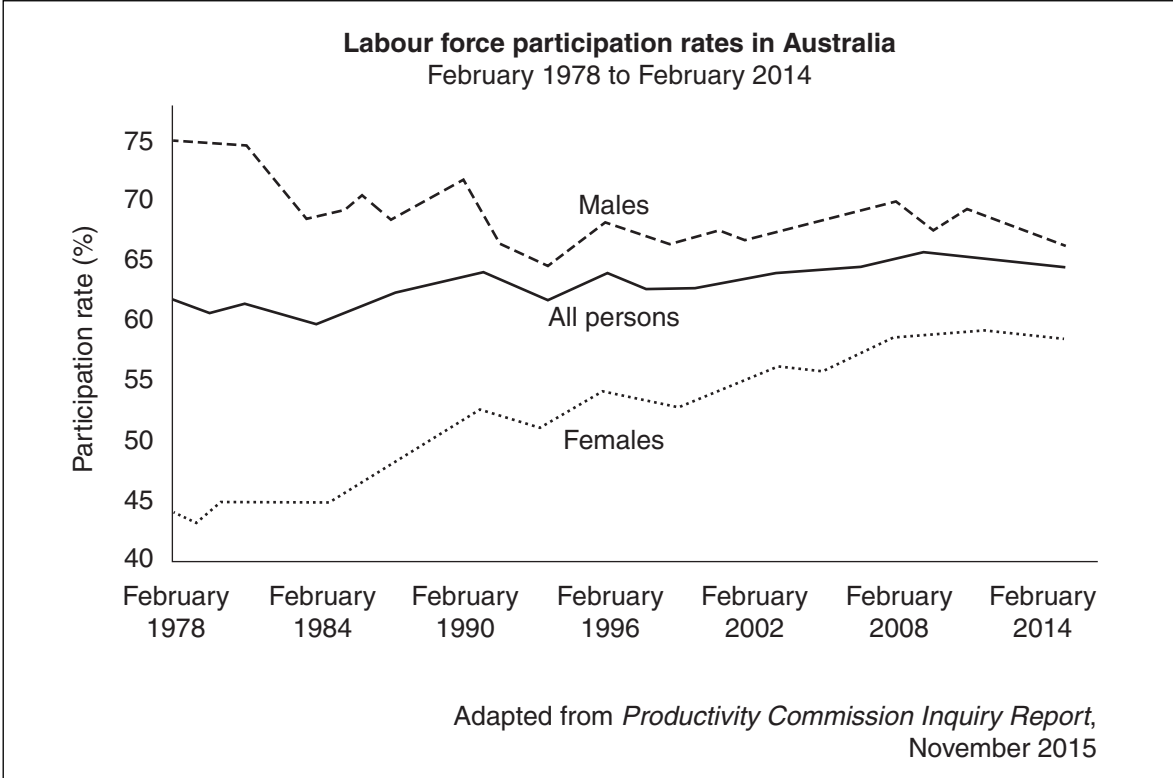
Without regulation and an ability to act collectively, many employees are likely to have much less bargaining power than employers, with adverse outcomes for their wages and conditions... [Awards in the Australian labour market have] some undesirable inconsistencies and rigidities...

...

Wages paid are typically the key cost of employing labour... Businesses incur other employment costs, such as workers compensation premiums, provision for leave, superannuation and payroll taxes...

For employees, wages are often the main ‘return’ from working, such that an increase in wages induces more people to enter the labour force to seek work...

Productivity Commission Inquiry Report, November 2015

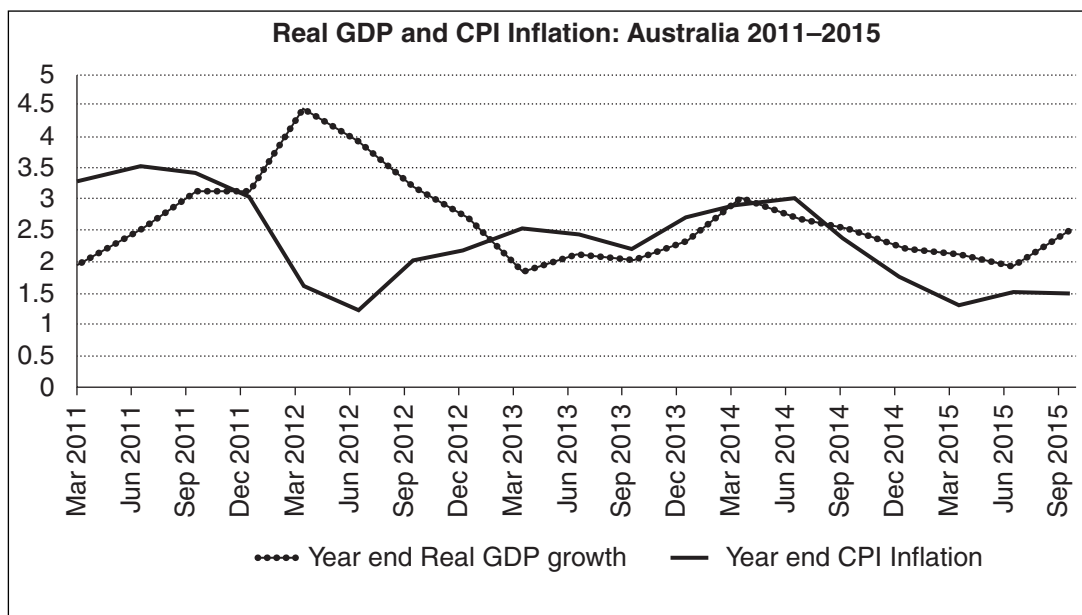


OR

Question 26 (20 marks)

Explain why an Australian Government may not be able to achieve all of its economic objectives. In your response, refer to the economic information provided.

Awaiting copyright



Please turn over

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.

Your answer 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)

Assess the impact of the Reserve Bank of Australia's expansionary monetary policy on the Australian economy.

OR

Question 28 (20 marks)

Analyse the influence of different factors on Australia's trade and financial flows.

End of paper