

BOARD OF STUDIES  
NEW SOUTH WALES

HIGHER SCHOOL CERTIFICATE EXAMINATION

2000  
**ECONOMICS**  
2/3 UNIT (COMMON)

*Time allowed—Three hours  
(Plus 5 minutes reading time)*

**DIRECTIONS TO CANDIDATES**

- Board-approved calculators may be used.
- You may ask for extra Writing Booklets if you need them.

**Section I** (20 marks)

- Attempt ALL questions.
- Complete your answers in either blue or black pen on the Answer Sheet provided.
- Select the alternative A, B, C or D that best answers the question.

**Section II** (20 marks)

- Attempt BOTH questions.
- Answer the questions in the spaces provided in this paper.
- Write your Student Number and Centre Number in the spaces provided on the first page of each question.

**Section III** (20 marks)

- Attempt ONE question.
- Answer the question in a SEPARATE Writing Booklet.

**Section IV** (40 marks)

- Attempt TWO questions, each from a different option.
- Answer each question in a SEPARATE Writing Booklet.

**SECTION I**

(20 Marks)

Attempt ALL questions.

Each question is worth 1 mark.

**Instructions for answering multiple-choice questions**

- Complete your answers in either blue or black pen.
- Select the alternative A, B, C or D that best answers the question. Fill in the response oval completely.

**Sample:**  $2 + 4 =$  (A) 2 (B) 6 (C) 8 (D) 9  
A  B  C  D

If you think you have made a mistake, put a cross through the incorrect answer and fill in the new answer.

A  B  C  D

If you change your mind and have crossed out what you consider to be the correct answer, then indicate the correct answer by writing the word **correct** and drawing an arrow as follows.

A  B  C  D   
correct  
↖

- 1 Which of the following should increase during a recession?
  - (A) Total output
  - (B) Interest rates
  - (C) Disposable income
  - (D) Cyclical unemployment
  
- 2 Which of the following will improve a nation's terms of trade?
  - (A) Export prices rise faster than import prices.
  - (B) Export prices fall faster than import prices.
  - (C) Export quantities rise faster than import quantities.
  - (D) Export quantities fall faster than import quantities.
  
- 3 Which of the following represents an increase in public goods?
  - (A) Increased spending on social welfare
  - (B) The creation of a national park
  - (C) An increase in the number of public companies
  - (D) The privatisation of government business enterprises
  
- 4 If the actions of the Reserve Bank lead to a substantial increase in interest rates, which of the following is most likely to occur?
  - (A) Aggregate demand will increase and the Australian dollar will depreciate.
  - (B) Aggregate demand will increase and the Australian dollar will appreciate.
  - (C) Aggregate demand will decrease and the Australian dollar will depreciate.
  - (D) Aggregate demand will decrease and the Australian dollar will appreciate.

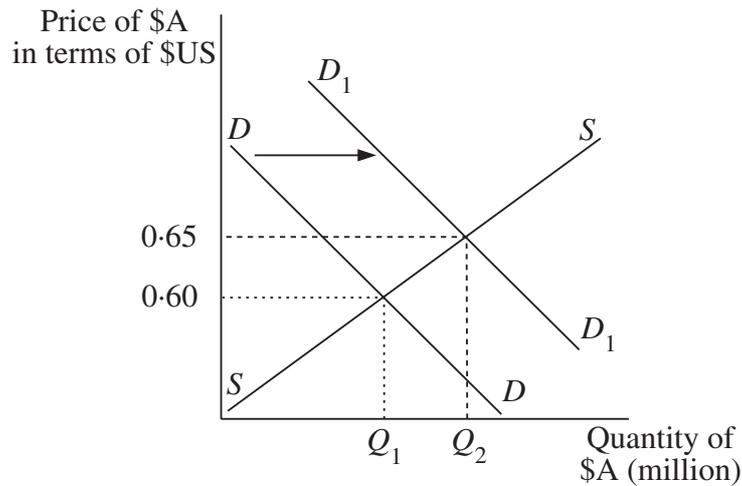
- 5 Which of the following indicates that a government has budgeted for a deficit?
- (A) Exports are greater than imports.
  - (B) The capital and financial account is in deficit.
  - (C) Government expenditure is greater than revenue.
  - (D) Public sector debt has decreased.

- 6 From the information in the table, what is the unemployment rate?

Employed persons	12 million
Unemployed persons	4 million
Hidden unemployed	2 million
Population aged 15 and over	20 million

- (A) 25%
  - (B) 30%
  - (C) 33%
  - (D) 50%
- 7 Which of the following is an example of microeconomic reform?
- (A) The deregulation of the labour market
  - (B) The raising of tariff barriers in Australia
  - (C) Government policies designed to control price levels
  - (D) The government buying back former government business enterprises
- 8 What are the likely effects of a reduction in income tax rates?
- (A) Reduced employment and increased consumption
  - (B) Reduced consumption and increased investment
  - (C) Increased disposable income and increased employment
  - (D) Increased investment and reduced disposable income

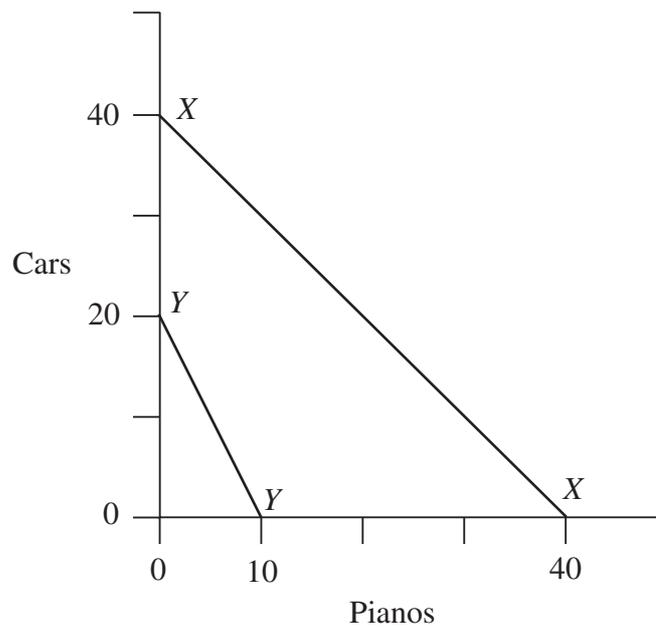
- 9 The diagram shows the value of \$A expressed in terms of \$US.



- What will be the effect of this shift in demand for the \$A from  $DD$  to  $D_1D_1$ ?
- (A) Australian exports to the USA will be more price competitive.  
 (B) Australian debt repayments to the USA will be reduced.  
 (C) It will be cheaper for tourists from the USA to visit Australia.  
 (D) The cost of imports from the USA will increase.
- 10 Which market structure is characterised by a few relatively large firms and high barriers to entry?
- (A) Oligopoly  
 (B) Monopoly  
 (C) Pure competition  
 (D) Monopolistic competition
- 11 In which section of Australia's balance of payments would an inflow of foreign investment be recorded?
- (A) The capital account  
 (B) The financial account  
 (C) The income account  
 (D) The current account

- 12 Other things being equal, which group could be advantaged by a rise in inflation?
- (A) Those who borrow money
  - (B) Those who have fixed incomes
  - (C) Those who produce exports
  - (D) Those who save money

- 13 The diagram shows the production possibility curves of two countries, *X* and *Y*.



Which one of the following statements is correct?

- (A) Country *X* has a comparative advantage in producing both cars and pianos.
  - (B) Country *Y* has a comparative advantage in producing both cars and pianos.
  - (C) Country *X* has a comparative advantage in producing cars.
  - (D) Country *X* has a comparative advantage in producing pianos.
- 14 Which of the following would reduce the level of protection for a domestic industry?
- (A) Increasing the level of tariffs
  - (B) Increasing the size of subsidies
  - (C) Increasing the size of quotas on imports
  - (D) Increasing the use of embargoes

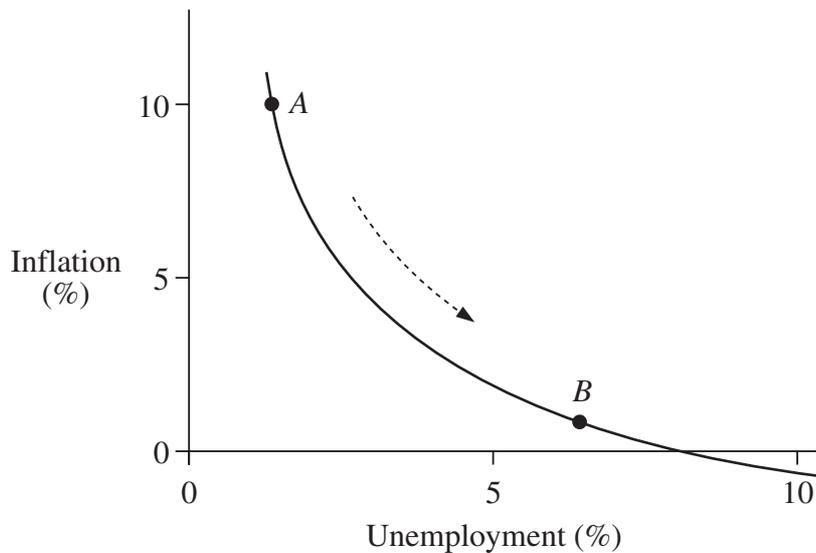
**15** If there is an increase in the cash rate, which one of the following alternatives is most likely to happen?

- (A) Unemployment will decrease and the rate of economic growth will increase.
- (B) The levels of business investment and consumer spending will increase.
- (C) Economic growth will slow down and consumer spending will decrease.
- (D) The money supply will increase and the rate of inflation will increase.

**16** Which of the following would most likely improve Australia's international competitiveness?

- (A) An appreciation of the Australian dollar
- (B) A larger budget deficit
- (C) Increased interest rates
- (D) Reduced transport costs in Australia

**17**



Which of the following could cause the economy to move from point *A* to point *B*?

- (A) A reduction in interest rates
- (B) Increased government spending
- (C) A decrease in consumer spending
- (D) A decrease in income taxes

- 18** Which of the following is an example of an externality?
- (A) An increase in the size of the current account deficit
  - (B) Pollution control devices on cars
  - (C) A rise in overseas oil prices
  - (D) Increased traffic congestion
- 19** Which combination of fiscal and monetary policies would most likely expand the domestic economy in the short run?
- (A) An increase in government expenditure and an increase in interest rates
  - (B) An increase in government expenditure and a decrease in interest rates
  - (C) A decrease in government expenditure and a decrease in interest rates
  - (D) A decrease in government expenditure and an increase in interest rates
- 20** Which type of unemployment is associated with changes in the pattern of consumer demand and changes in technology?
- (A) Cyclical unemployment
  - (B) Frictional unemployment
  - (C) Hidden unemployment
  - (D) Structural unemployment

MARKER'S USE ONLY

STUDENT NUMBER

**2000  
HIGHER SCHOOL CERTIFICATE EXAMINATION  
ECONOMICS  
2/3 UNIT (COMMON)**

CENTRE NUMBER

**SECTION II**

**Marks**

(20 Marks)

Attempt BOTH questions.

Each question is worth 10 marks.

Answer the questions in the spaces provided in this paper.

**21**

INCOME TAX SCHEDULE	
<i>Taxable income levels</i> (\$)	<i>Tax payable</i> (\$)
0	0
10 000	1 000
20 000	4 000
30 000	8 000
40 000	14 000

- (a) What is the marginal rate of tax that applies to a person earning an income between \$20 000 and \$30 000? **1**

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- (b) What is the average rate of tax when income is \$40 000? **1**

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**Question 21 continues on page 10**

QUESTION 21 (Continued)

Marks

- (c) Is this tax schedule progressive, regressive or proportional? Give a reason for your answer. 2

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- (d) Distinguish between direct and indirect taxation. 2

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- (e) (i) Briefly describe ONE reform to the Australian taxation system. 2

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- (ii) Outline ONE problem and ONE benefit associated with this reform. 2

Problem .....

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Benefit .....

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CENTRE NUMBER

**22** The table below gives selected economic data for an economy.

**Marks**

<i>Economic data</i>	<i>Year 1</i>	<i>Year 2</i>
Growth in real output (% change)	5.5%	1.5%
Consumer price index (base year: Year 1)	100	95
Cash rate %	4.5%	4.5%
Unemployment rate %	5.5%	8%
Goods and services credits (\$ m)	250	150
Goods and services debits (\$ m)	-350	-200

(a) Calculate the Balance on Goods and Services for Year 1. **1**

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(b) Which indicator from those listed provides the best measure of economic growth? **1**

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**Question 22 continues on page 12**

QUESTION 22 (Continued)

Marks

- (c) With reference to the table, state TWO pieces of evidence that indicate a decline in economic activity between Year 1 and Year 2. **2**

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- (d) State TWO likely consequences for this economy of the change in the unemployment rate between Year 1 and Year 2. **2**

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- (e) State ONE macroeconomic policy that could be used to increase economic activity in this economy. Briefly explain its consequences. **4**

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**2000  
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**SECTION III**

(20 Marks)

Attempt EITHER Question 23 OR Question 24.

Both questions are of equal value.

Answer the question in a SEPARATE Writing Booklet.

**Please turn over**

## EITHER

- 23 With the assistance of the following information and using your knowledge of economics, write an essay on:

*Inflation in the Australian Economy*

In your essay, include some discussion of the following points:

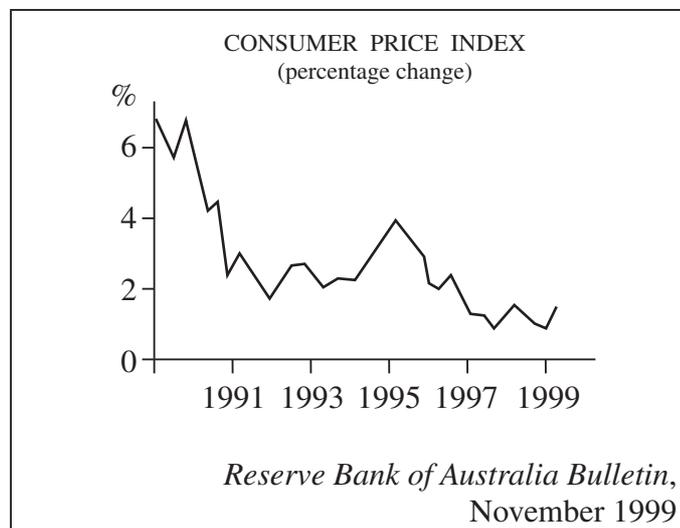
- the meaning and causes of inflation;
- the reasons for Australia's current rate of inflation;
- the consequences of the current rate of inflation for the Australian economy;
- policies that can be implemented to contain inflationary pressures in the Australian economy.

Most indicators of inflation expectations have increased in recent quarters . . . While much of the increase in inflation expectations reflects the anticipated one-time effect on the price level of the introduction of the major components of the Government's tax package in July 2000, part of the increase in these indicators appears to reflect higher expectations of ongoing inflation . . .

*Reserve Bank of Australia Bulletin, November 1999*

With inflation low and wages growth moderate, there is strong evidence that the good times will keep rolling through the next year, despite the likelihood of further interest rate increases . . . Household consumption, responsible for nearly all the economic growth for the past year, accounted for a little less than half the expansion in the latest figures . . . The inflation and wages data in the national accounts was moderately higher. But when combined with a slide in productivity in the three months to September, the outlook is for rising unit labour costs and pressure on inflation.

*Sydney Morning Herald, 16 December 1999*



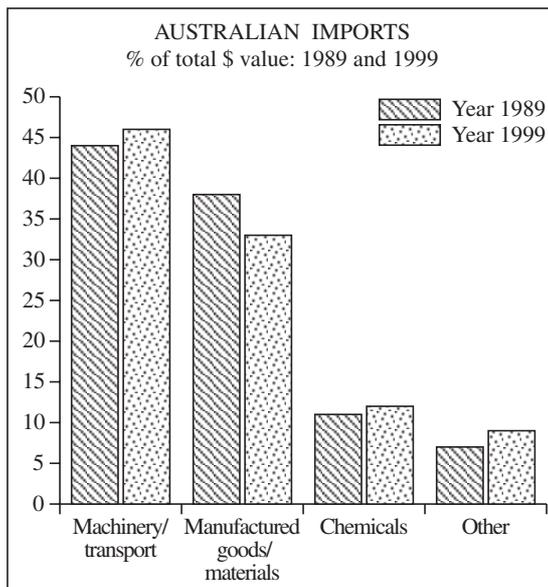
OR

- 24 With the assistance of the following information and using your knowledge of economics, write an essay on:

*Australia's International Trade and Protection*

In your essay, include some discussion of the following points:

- the direction and composition of Australia's trade in recent years;
- the reasons for the reduction in the levels of protection in Australia in recent years;
- the consequences of reduced levels of protection for the Australian economy.



The Asian financial crisis has strengthened the long-term upward trend in the share of imports into Australia supplied by the developing Asian economies. At the same time, the depreciation of the Australian dollar against the US dollar and the European currencies has helped boost the shares of exports going to the USA and the European Union. To a lesser extent, it has also depressed the shares of imports coming from these areas.

June 1999

World trade policy reform has been the outcome of a mix of unilateral, regional, and multilateral initiatives, in varying measures across countries and regions. Broadly speaking, the industrial countries have relied mainly on the multilateral process under the World Trade Organisation and on regional integration initiatives to generate a positive dynamic in favour of more liberal trade, while unilateral trade reform has been a feature primarily in developing, newly industrialised, and transition economies.

*International Monetary Fund, 1999*

## **SECTION IV**

(40 Marks)

Attempt TWO questions, each from a different option.

Each question is worth 20 marks.

Answer each question in a SEPARATE Writing Booklet.

### **LABOUR ECONOMICS**

EITHER

- 25** What factors determine the demand for labour in the Australian economy? How do changes in the level of demand for labour affect the Australian economy? Discuss how government policies can affect the level of employment in the Australian economy.

OR

- 26** How are wages currently determined in Australia? What are the benefits for the Australian economy of the present system of wage determination? Discuss the role of government, industrial tribunals and unions in dealing with problems associated with the present system of determining wage outcomes in Australia.

### **INDUSTRY ECONOMICS**

EITHER

- 27** Compare the characteristics of monopolistic competition and oligopoly. How does the conduct of oligopoly differ from that of monopolistic competition? How do firms in each of these market models respond to the entry of new firms?

OR

- 28** How does the Australian Government attempt to ensure that industries are competitive? Explain how the Trade Practices Act is used to protect consumers. Evaluate the Government's competition policies in terms of promoting Australia's international competitiveness.

**DEVELOPMENT ECONOMICS**

EITHER

- 29** What is economic development? Discuss the reasons for differences in development between nations. Explain how rich nations can affect the economic growth and development of poor nations.

OR

- 30** What are the main sources of economic growth? Discuss the factors that inhibit economic growth and development in developing countries. Evaluate the alternative strategies that developing countries may use to achieve economic growth and development.

**ECONOMICS OF PRIMARY INDUSTRIES**

EITHER

- 31** Outline how economies of scale can be achieved in Australia's agricultural sector. Discuss the costs and benefits of improving the export performance of Australia's agricultural sector. Evaluate the present role of government in assisting the export performance of Australia's agricultural sector.

OR

- 32** Outline the contribution made by the Australian mining industry to the Australian economy. How could fluctuations in the international level of economic activity affect Australia's mining industry? Examine policies that governments could implement to reduce the impact of such fluctuations on the mining industry.

**DISTRIBUTION OF INCOME AND WEALTH**

EITHER

- 33** What factors determine the distribution of income in Australia? Discuss the economic and social costs and benefits of inequality in the distribution of income. Evaluate government policies aimed at reducing inequality of income distribution.

OR

- 34** What is the poverty line? Which groups are most likely to suffer from poverty? Analyse the problems faced by government in trying to reduce poverty in Australia.

**End of paper**

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