

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

2002

**HIGHER SCHOOL CERTIFICATE
EXAMINATION**

Economics

General Instructions

- Reading time – 5 minutes
- Working time – 3 hours
- Write using black or blue pen
- Board-approved calculators may be used
- Write your Centre Number and Student Number at the top of pages 9, 11, 13 and 15

Total marks – 100

Section I Pages 2–8

20 marks

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

Section II Pages 9–16

40 marks

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

Section III Pages 17–18

20 marks

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

Section IV Page 19

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.

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.

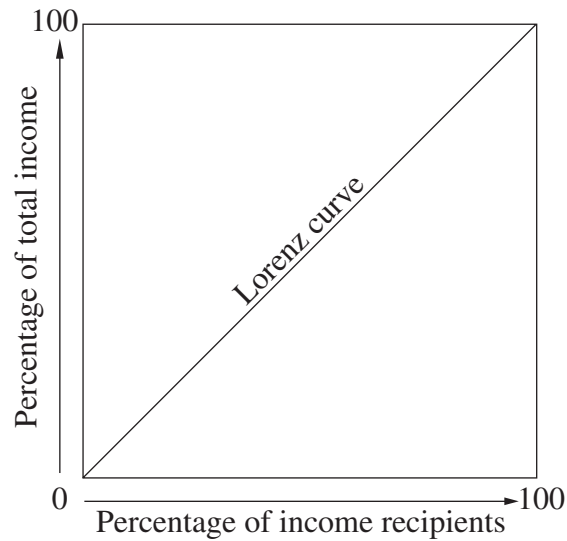
A B C D

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 defines Gross World Product?
- (A) Increased integration between different countries and economies
 - (B) The total global output of goods and services by all economies
 - (C) The sum of the interactions between the economies of individual countries
 - (D) The final output of goods and services produced by developing economies
- 2** Which of the following is recognised as the bilateral trade agreement between Australia and New Zealand?
- (A) APEC
 - (B) ASEAN
 - (C) CERTA
 - (D) WTO
- 3** Which of the following best describes the difference between monetary policy and fiscal policy?
- (A) Monetary policy is quicker to implement but has a longer time lag than fiscal policy.
 - (B) Monetary policy is slower to implement but has a longer time lag than fiscal policy.
 - (C) Monetary policy is slower to implement but has a shorter time lag than fiscal policy.
 - (D) Monetary policy is quicker to implement but has a shorter time lag than fiscal policy.
- 4** Other things being equal, what would improve an economy's terms of trade?
- (A) An increase in export prices and a decrease in import prices
 - (B) A decrease in export prices and an increase in import prices
 - (C) An increase in the volume of exports and a decrease in the volume of imports
 - (D) A decrease in the volume of exports and an increase in the volume of imports
- 5** Which of the following could cause a decrease in hidden unemployment?
- (A) An increase in the general level of unemployment
 - (B) An increase in the level of cyclical unemployment
 - (C) An increase in the number of discouraged workers
 - (D) An increase in the labour force participation rate

- 6 The diagram shows the Lorenz curve for a nation.



What is the value of the Gini coefficient shown by the Lorenz curve?

- (A) -1
(B) 0
(C) 0.5
(D) 1
- 7 Which of the following is a feature of a fully decentralised wage determination system?
- (A) Compulsory unionism
(B) Wage increases tied to inflation
(C) Increased role of industrial tribunals
(D) Negotiated workplace agreements

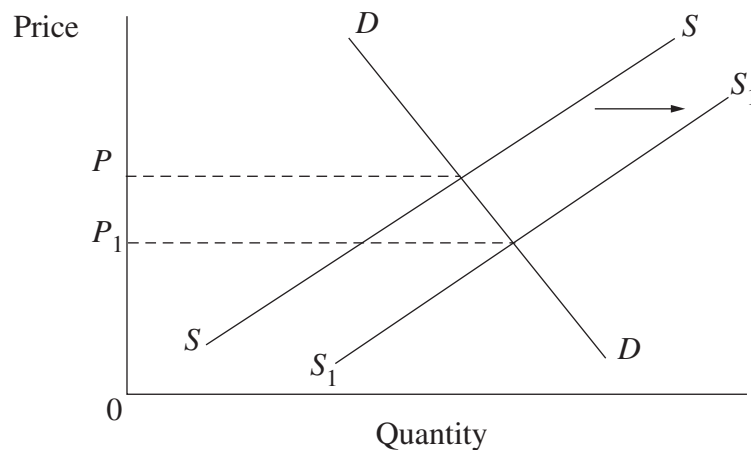
8 **Government budget data for a nation**

<i>Year</i>	<i>Government Expenses</i> (\$ billion)	<i>Government Revenue</i> (\$ billion)
1	80	95
2	90	100
3	95	115

Which of the following explains what happened between Years 2 and 3?

- (A) The budget surplus increased.
(B) The budget surplus decreased.
(C) The budget deficit increased.
(D) The budget deficit decreased.

- 9 What action could the Reserve Bank take in order to reduce the rate of inflation?
- (A) Sell government securities to create a surplus of funds in the market.
 (B) Sell government securities to create a shortage of funds in the market.
 (C) Buy government securities to create a surplus of funds in the market.
 (D) Buy government securities to create a shortage of funds in the market.
- 10 What is the likely impact of a decrease in the general level of tariffs in Australia?
- (A) Greater advantages for Australian producers in Australian markets
 (B) Reduced advantages for Australian producers in overseas markets
 (C) Greater advantages for overseas producers in Australian markets
 (D) Reduced advantages for overseas producers in overseas markets
- 11 The diagram shows the impact of microeconomic reforms on the Australian car industry.



Which of the following could explain the shift in the supply curve from S to S_1 ?

- (A) A decrease in the price of cars
 (B) An increase in technical efficiency
 (C) An increase in car industry regulation
 (D) A decrease in the supply of cars

- 12** Which of the following measures the value of the Australian dollar against the currencies of Australia's major trading partners?
- (A) The terms of trade
 - (B) The current account deficit
 - (C) The balance of trade
 - (D) The trade weighted index

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Selected data for a nation

<i>Balance of Payments</i>	
	(\$ billion)
Goods and Services	?
Net current transfers	-10
Net income	-2
Balance on Capital and Financial Account	30

What is the balance on Goods and Services?

- (A) -\$12 billion
 - (B) -\$18 billion
 - (C) -\$30 billion
 - (D) -\$42 billion
- 14** Which policy could reduce income inequalities in an economy?
- (A) Introduction of a safety-net wage system
 - (B) Increase in indirect taxes on basic food items
 - (C) Removal of means tests for social security payments
 - (D) Award of a 10% pay rise to all wage earners

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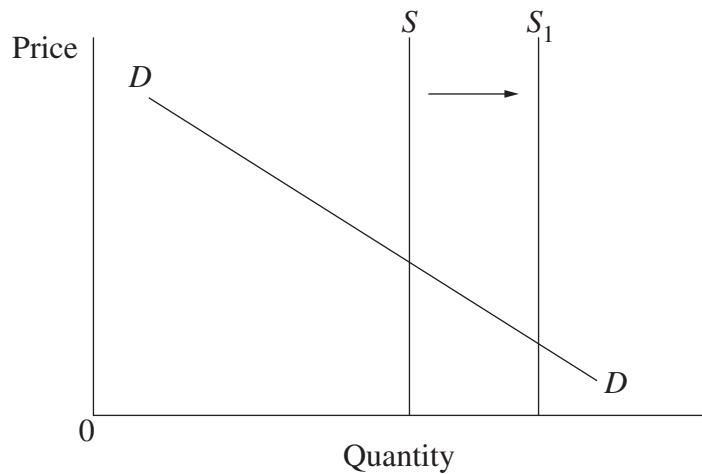
Selected data for a nation

<i>Year</i>	<i>Consumer Price Index</i>
1	115
2	120
3	132
4	142

In which year was the annual inflation rate 10%?

- (A) Year 1
 - (B) Year 2
 - (C) Year 3
 - (D) Year 4
- 16 When foreign tourists pay for hotel accommodation in Sydney, how is this recorded in Australia's balance of payments?
- (A) As a debit on the Australian capital and financial account
 - (B) As a credit on the Australian capital and financial account
 - (C) As a debit on the Australian current account
 - (D) As a credit on the Australian current account
- 17 Which of the following could improve Australia's international competitiveness?
- (A) An increase in Australia's inflation rate
 - (B) A rise in interest rates in Australia
 - (C) A depreciation of the Australian dollar
 - (D) An increase in average weekly earnings in Australia

18 The diagram shows the market for imported shoes.



According to the diagram, what is the effect of a movement in the quota from S to S_1 ?

- (A) The quota increases and the domestic price falls.
 - (B) The quota decreases and the domestic price rises.
 - (C) The quota increases and the domestic price rises.
 - (D) The quota decreases and the domestic price falls.
- 19 If $Y = 200$, $C = 50$, $I = 20$, $G = 40$ and $M = 30$, what is the value of exports?
- (A) 60
 - (B) 110
 - (C) 120
 - (D) 140
- 20 Which of the following could assist economic growth in developing countries?
- (A) An increase in the rate of taxation
 - (B) A decrease in foreign investment
 - (C) A decrease in the terms of trade
 - (D) An increase in the level of education

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Centre Number

Section II

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Student Number

40 marks

Attempt Questions 21–24

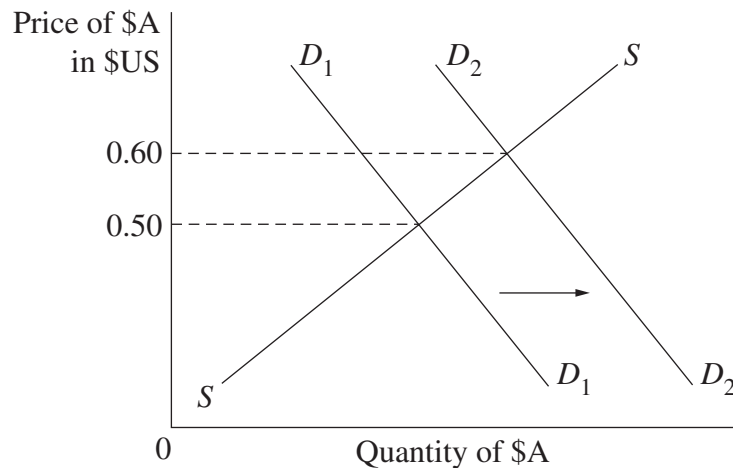
Allow about 1 hour and 15 minutes for this section

Answer the questions in the spaces provided.

Marks

Question 21 (10 marks)

The diagram shows information about the demand and supply of Australian dollars (\$A) in terms of United States dollars (\$US). Both countries have flexible exchange rates.



- (a) State the economic term given to the movement of the exchange rate of the \$A from \$US0.50 to \$US0.60. 1

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- (b) Outline TWO causes of an increase in demand for \$A. 2

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Question 21 continues on page 10

Question 21 (continued)

- (c) Briefly explain how the Reserve Bank could intervene in the foreign exchange market to influence the exchange rate of the \$A. **3**

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- (d) Discuss TWO economic benefits to Australia of an appreciation of the \$A. **4**

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End of Question 21

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Centre Number

Section II (continued)

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Student Number

Marks

Question 22 (10 marks)

The table shows labour force and population information for a nation.

<i>Labour force data</i>	<i>Number of persons (million)</i>
Employed persons	9
Unemployed persons	1
Population of working age	16
Total population	20

- (a) Calculate the labour force unemployment rate for this nation. **1**

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- (b) Calculate the labour force participation rate for this nation. **1**

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Question 22 continues on page 12

Question 22 (continued)

- (c) Explain ONE economic and ONE social cost created by unemployment. 4

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- (d) Explain how TWO economic policies could be used by the Australian Government to reduce the level of unemployment. 4

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End of Question 22

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Centre Number

Section II (continued)

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Student Number

Marks

Question 23 (10 marks)

The table gives selected data for a closed economy.

<i>Year</i>	<i>Income (Y)</i> (\$m)	<i>Consumption (C)</i> (\$m)	<i>Savings (S)</i> (\$m)	<i>Investment (I)</i> (\$m)
1	400	360	40	200
2	500	420	80	200
3	600	480	120	200

- (a) Write the formula for the simple multiplier (k). **1**

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- (b) Use the information in the table to calculate the value of the simple multiplier for this economy. **1**

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- (c) Outline how the simple multiplier can affect economic activity. **2**

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Question 23 continues on page 14

Question 23 (continued)

- (d) Explain ONE benefit of economic growth to an economy. **2**

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- (e) Explain the impact of economic growth on ecologically sustainable development. **4**

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End of Question 23

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Centre Number

Section II (continued)

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Student Number

Marks

Question 24 (10 marks)

The following information refers to inflation.

The Consumer Price Index (CPI) increased by 0.9 per cent in the December quarter, after rising by 0.3% in the September quarter, to be 3.1% higher over 2001. . . .

However, the outlook for the medium term determinants of inflation has not changed substantially in the light of recent data. Wage and labour cost growth remain contained and are likely to continue to be so given the prevailing weakness in the labour market. The stability of the exchange rate over the past year, combined with downward pressure on world prices from the subdued global economy, suggests that there will be little inflationary pressure from import prices in the medium term.

Adapted from Reserve Bank, *Statement on Monetary Policy*,
February 2002

Material used with permission of the Reserve Bank of Australia

- (a) Define the term *inflation*. 2

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- (b) Outline TWO causes of inflation. 2

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Question 24 continues on page 16

Question 24 (continued)

- (c) Outline TWO negative effects of inflation on an economy. **2**

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- (d) Explain TWO government economic policies that could reduce the rate of inflation in an economy. **4**

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End of Question 24

Economics

Section III

20 marks

Attempt either Question 25 or Question 26

Allow about 35 minutes for this section

Answer the question in a writing booklet. Extra writing booklets are available.

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

- use your knowledge and the economic information provided
 - apply economic terms, concepts, relationships and theory
 - present a sustained, logical and well-structured answer to the question
-

Question 25 (20 marks)

Explain the role of microeconomic policies in assisting structural change in the Australian economy.

There appears to be an overwhelming case for pressing on with microeconomic reform and structural change. To abandon the process would not only deny us the benefits promised by the increased efficiency but put our economy at serious risk of falling continuously behind other economies in terms of economic development.

Australia clearly needs to restructure its industries so that it becomes more competitive. Only then can we confidently expect to realise an increase in exports, an increase in import substitution and a reduction in our current account deficit.

Adapted from *Ecodate*, May 2001,
Microeconomic Policy and Structural Change in the Australian Economy,
DR D ARCHBOLD

OR

In your answer you will be assessed on how well you:
use your knowledge and the economic information provided
apply economic terms, concepts, relationships and theory
present a sustained, logical and well-structured answer to the question

Question 26 (20 marks)

Explain how the Federal Government can use fiscal policy to promote economic growth, redistribute income and assist external stability.

Growth in the Australian economy strengthened over the course of 2001 against a backdrop of weakening world economic conditions. GDP increased at an annualised rate of 4 per cent over the three quarters to September 2001.

The deterioration in the world economy has been reflected in a switch in the composition of Australian growth from external to domestic demand, with the external sector subtracting from growth over the second half of 2001 after contributing 2 percentage points to growth over the preceding year.

Adapted from Reserve Bank, *Statement on Monetary Policy*,
February 2002

Material used with permission of the Reserve Bank of Australia

Commonwealth Government Budget

Operating Result

Amounts in \$ million

1998–1999	1999–2000	2000–2001
+ 5630	+ 9514	+ 4743

Note: + surplus, deficit

Adapted from *Reserve Bank Bulletin*, January 2002

Section IV

20 marks

Attempt either Question 27 or Question 28

Allow about 35 minutes for this section

Answer the question in a SEPARATE writing booklet. Extra writing booklets are available.

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

- use economic data
 - apply economic terms, concepts, relationships and theory
 - present a sustained, logical and well-structured answer to the question
-

Question 27 (20 marks)

Analyse the impact of changes in the global economy on Australia's current account and net foreign debt.

OR

Question 28 (20 marks)

Analyse the impact of protectionist policies on the domestic and global economies.

End of paper

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