

# 2009 HSC Economics

## Sample Answers

This document contains 'sample answers', or, in the case of some questions, 'answer may include'. These are developed by the examination committee for two purposes. The committee does this:

- (a) as part of the development of the examination paper to ensure the questions will effectively assess students' knowledge and skills, and
- (b) in order to provide some advice to the Supervisor of Marking about the nature and scope of the responses expected of students.

The 'sample answers' or similar advice, are not intended to be exemplary or even complete responses. They have been reproduced in their original form as part of the examination committee's 'working document'. While the handwritten notes have been typed for legibility, no further editorial change or addition has occurred.

## Section II

### Question 21 (a)

*Sample answer/Answers could include:*

Food

### Question 21 (b)

*Sample answer:*

Demand inflation occurs when aggregate demand is increasing while the economy is operating at near full capacity, therefore demand puts upward pressure on prices.

Cost inflation occurs when there is an increase in the cost of production, such as labour, which is passed on in the form of higher prices.

*Answers could include:*

- Supply constraints
- Cost of factors of production
- Cost of imported inputs
- Oil shock



**Question 21 (c)*****Sample answer:***

A depreciation of the \$A increases the price of imported products in Australian dollar terms. This is because more Australian dollars need to be exchanged into foreign currency in order to buy an imported good.

Consumers pay more for final goods imported from overseas. Producers pay more for intermediate goods imported from overseas. Since import prices have risen, the CPI has increased.

***Answers could include:***

- Imported inflation
- Inflationary pressure
- Cost inflation
- Inflation expectations
- Reduction of purchasing power

**Question 21 (d)*****Sample answer:***

One positive effect of inflation is that the real value of debts decreases. This makes it easier for firms and households to repay their debts especially if these debts resulted from the purchase of assets that are now appreciating in value. One negative effect of inflation is that the real value of income and wealth decreases. This means that consumers' purchasing power declines, reducing their standard of living. This is especially a problem for consumers on fixed incomes.

***Answers could include:***

- Constraint on economic growth
- Wage/ price spiral
- Distribution of income
- Inflation/ unemployment trade-off
- Inflationary expectations
- Reduction in international competitiveness
- Distorts economic decision making
- Speculation
- Interest rates
- Inflationary targeting
- Interest income increases

**Question 22 (a) (i)*****Sample answer:***

- Year 1= \$15 billion surplus
- Year 2= \$12 billion deficit

***Answers could include:***

- 15 surplus
- 12 deficit
- -15
- +12

**Question 22 (a) (ii)*****Sample answer:***

Discretionary change is the increase in defence spending. A non-discretionary change is the reduction in income taxes.

***Answers could include:***

Non-discretionary: social security and welfare, income taxes

**Question 22 (a) (iii)*****Sample answer:***

The increase in social security expenditure from Year 1 to Year 2 leads to a more equal distribution of income. Since social security payments are generally targeted at those on low incomes and the unemployed, increasing social security payments will increase the disposable income of these groups relative to others.

***Answers could include:***

- Reduction in income tax receipts
- Increases in inequality/equality
- Increases in unemployment
- Automatic stabilisers

**Question 22 (b)*****Sample answer:***

The Government can finance a budget deficit by selling bonds to domestic private lenders under a tender system. This can crowd out other domestic private borrowers, as there is increased demand for domestic savings. This increases the cost of domestic borrowing, that is, interest rates rise. This discourages domestic investment.

Borrowing from the domestic private sector tends to have no effect on domestic money supply. This is because the money borrowed from the private sector is returned to them as the Government spends the money through its budget.

***Answers could include:***

- External stability
- Capital inflow
- Exchange rates
- International competitiveness
- Accumulation of public sector debt
- Crowding out

**Question 23 (a)*****Sample answer:***

- Parks

***Answers could include:***

- Library
- Museum
- Defence
- Education
- Hospitals
- Roads
- Dams
- Electricity

**Question 23 (b)*****Sample answer:***

Public goods are non-rival goods because no matter how many people consume them, the benefits available to others will not be reduced. For example, one person's consumption of clean air will not reduce the ability of another person to enjoy the benefits of clean air.

***Answers could include:***

- Non-excludable
- Free-riding
- Government provision
- Private sector provision

**Question 23 (c)*****Sample answer:***

Economic growth involves an increase in the volume of goods and services produced in an economy over a given period of time. In order for growth to occur, both renewable and non-renewable resources are used and the use and over use of these resources may create environmental damage, such as the loss of biodiversity. It is also true that economic growth can lead to a greater awareness of environmental issues and a desire to improve environmental quality.

***Answers could include:***

- Opportunity cost
- Ecologically sustainable development
- Intergenerational equity
- Production possibility curves
- International agreements
- Kyoto Protocol
- Technological advances
- Environmental constraints on economic growth

**Question 23 (d)*****Sample answer:***

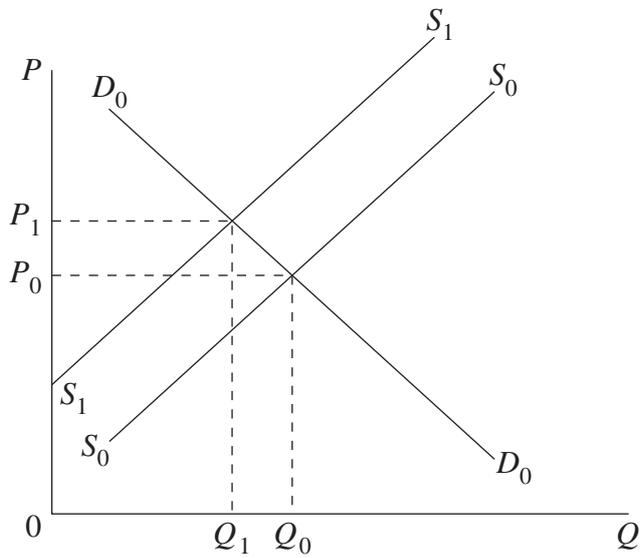
Externalities are the unintended consequences of economic activity that are not borne or enjoyed by the individual producer or consumer. When the government decides to build a new airport there will be positive and negative externalities from this decision. The positive externalities are the beneficial effects that are generated for all of society and in this case it could be the creation of new jobs, an increase in tourist numbers and reduced network congestion, which would stimulate production and investment in the economy.

The negative externalities that arise from this decision could be the discomfort felt by the general community from increased noise levels and respiratory problems from airline jet vapours. Another externality would be the displacement of people from their family homes.

Neither positive nor negative externalities are reflected in the price mechanism.

***Answers could include:***

- Social costs and benefits
- Private costs and benefits
- Market failure
- Merit goods
- Demerit goods
- Price mechanism (graphically demonstrated)

**Question 24 (a)***Sample answer:***Question 24 (b)***Answers could include:*

- EU, NAFTA, APEC, ASEAN, CERTA
- IMF, World Bank
- Globalisation
- Trade and financial flows
- Regionalism
- Development
- Exchange rates
- Gross World Product
- World Health Organisation

**Question 24 (c)*****Sample answer:***

A reduction in subsidy payments to USA farmers will have an impact on Australian farmers by increasing their access to more export markets and increasing export revenue to Australian farmers. Greater exports would improve Australia's BOGS which could reduce the CAD. Increasing exports will add to Australia's economic growth rate as production increases in agricultural industries. However, as demand for Australian exports increase, the demand for \$A will rise, leading to an appreciation of the \$A in the longer term

USA farmers would suffer a loss of income and would reduce production as the US government reduces subsidies. US farmers would be forced to become more internationally competitive and improve their efficiency of production. This will encourage a more efficient allocation of resources in the US economy as resources move to more efficient firms and industries. The US government will have an increased level of revenue, as subsidies will not be paid to farmers. However, the US economy will suffer higher levels of unemployment in agriculture in the short run as protection is reduced.

***Answers could include:***

- International competition
- Government assistance
- Employment
- Terms of trade
- Economic growth
- Allocation of resources
- Agricultural prices
- Value of currency
- Use of government funds
- Efficient methods of production
- Protection-subsidies
- Export earnings

## Section III

### Question 25

*Answers could include:*

- Structural unemployment
- Structural change
- Allocative, technical and dynamic efficiency
- Deregulation of product/factor markets
- Corporatisation/privatization of PTEs
- National Competition Policy
- Capital widening/deepening
- Commercialisation
- Competitive neutrality
- Microeconomic policy/reform
- Taxation
- Economic infrastructure
- Trade and industry assistance
- Capital/labour/multifactor productivity
- Inflation, unemployment, economic growth, exchange rates
- External balance
- Distribution of income and wealth, standard of living

**Question 26*****Answers could include:***

- Process of globalisation
- Global wealth
- Global development
- Economic growth
- Quality of life/standard of living
- Contrasts in the level of development
- International convergence
- Trade
- Investment
- Transnational corporations
- Distribution of income & wealth
- Human Development Index (HDI)
- Financial markets
- Trade protection
- Developing economies, NICs, transition economies, high income economies
- Political factors
- Government policy
- International business cycle
- Global institutions (eg, international organisations, contemporary trade blocs and agreements)
- Gross World Product
- Poverty
- Labour, migration
- Micro-financing
- Case study country

## Section IV

### Question 27

*Answers could include:*

- Macroeconomic policy
- Inflation trends
- Demand inflation
- Cost inflation
- Effects of inflation
- Unemployment trends
- Causes of unemployment
- Economic and social costs of unemployment
- Fiscal policy
- Budgetary changes
- Discretionary changes in fiscal policy
- Non-discretionary changes in fiscal policy
- Unemployment benefits
- Automatic stabilisers
- Income tax system
- Expansionary fiscal stance
- Contractionary fiscal stance
- Use of budget surplus
- Monetary Policy
- Interest rates
- Expansionary monetary stance
- Contractionary monetary stance
- Transmission mechanism
- Consumption and borrowing
- Inflationary expectations
- Wage and price demands
- Economic activity

**Question 28*****Sample answer/Answers could include:***

- Global economic crisis
- GWP
- Increased trade flows – direction/composition
- Globalisation
- Increased financial flows
- Technology transfer
- Internationalisation of the labour force
- Expansion of FDI
- Increasing dominance of TNCs
- Changes in the value of the \$A
- International business cycle
- IMF, WTO, G8
- Net foreign debt, net foreign equity, net foreign liabilities
- Changes in economic growth
- CAD
- Debt servicing ratio
- International competitiveness
- National savings
- Cost of servicing foreign liabilities
- Investor confidence
- Interest rates
- Unemployment
- Fiscal stimulus
- ‘Loose’ monetary policy
- Business and consumer confidence