BOARD OF STUDIES

NEW SOUTH WALES

2010

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 9–17

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

(**Section III**) Pages 19–20

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

(**Section IV**) Page 21

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 economic objectives can best be achieved simultaneously with economic growth?

(A) Price stability

(B) External balance

(C) Increasing employment

(D) Environmental sustainability

2 Which of the following microeconomic reforms is most likely to relate to a product market?

(A) Deregulation of the labour market

(B) Reduction in marginal income tax rates

(C) Deregulation of the Australian financial system

(D) Introduction of the National Competition Policy

3 The table shows selected data for an economy.

Balance of Payments items	$ billion ($bn)
Exports	500
Imports	540
Net services	−70
Net income	−115
Net current transfers	85
Capital transfers	30
Reserve Assets	−20

According to the information in the table, which statement is correct for the economy if it has a floating exchange rate?

(A) There is a deficit of $225bn on the balance of goods and services.

(B) There is a surplus of $140bn on the capital and financial account.

(C) There is a surplus of $950bn on the current account.

(D) There is a deficit of $10bn on the capital account.

4   The graph shows an economy in equilibrium at W_e.
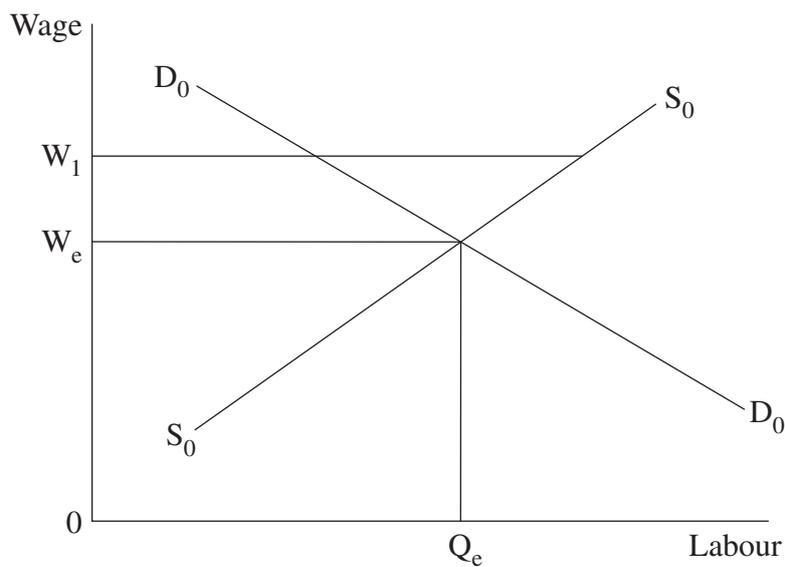
What will be the impact if the government set a minimum wage of W_1?

(A)   The demand for labour will increase.

(B)   The labour force participation rate will fall.

(C)   There will be an increase in unemployment.

(D)   Firms will demand less labour at every wage rate.

5   Which of the following policies would lead to a rise in the natural rate of unemployment?

(A)   An increase in official interest rates

(B)   A reduction in government expenditure

(C)   A decreased emphasis on wage decentralisation

(D)   A reduction in protection of manufacturing industries

6   Which international organisation is responsible for maintaining international financial stability?

(A)   World Bank

(B)   World Trade Organisation

(C)   International Monetary Fund

(D)   Organisation for Economic Cooperation and Development

7 The table shows Consumer Price Index (CPI) data by expenditure group for an economy.

Expenditure Group	Weighting factor in CPI (%)	CPI by expenditure group (base year = 100)
Food	30	110
Health	10	130
Housing	15	125
Clothing	20	120

According to the data, which CPI expenditure group contributes most to the inflation rate?

(A) Food

(B) Health

(C) Housing

(D) Clothing

8 Which of the following is most likely to increase Australia's international competitiveness?

(A) Structural change and higher interest rates in Australia

(B) Lower labour costs and improved infrastructure in Australia

(C) Lower inflation in Australia and reduced import quotas on foreign cars

(D) Productivity growth in Australia and appreciation of the Australian dollar

9 Which of the following government policies is most likely to reduce the size of a negative externality?

(A) Reduction in petrol excise

(B) Abolition of national park entry fees

(C) Lowering rebates on sustainable energy sources

(D) Reducing tax concessions on car parking spaces in the city

10 The graph shows that the Australian economy has moved from point *X* to point *Y*.
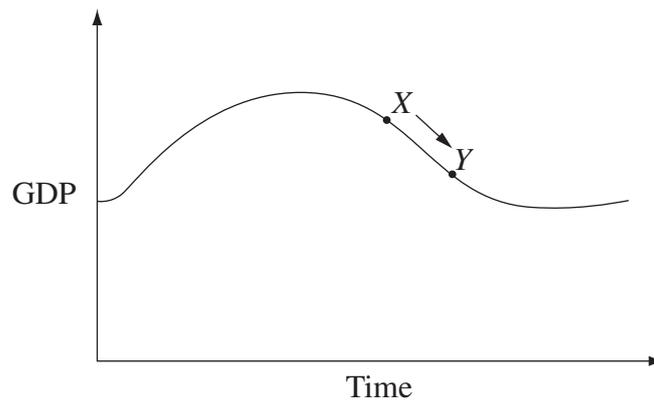
Which policy mix is the most appropriate for this economy?

(A) The Reserve Bank buys government securities and the Federal Government implements an expansionary budget.

(B) The Reserve Bank sells government securities and the Federal Government implements an expansionary budget.

(C) The Reserve Bank buys government securities and the Federal Government implements a contractionary budget.

(D) The Reserve Bank sells government securities and the Federal Government implements a contractionary budget.

11 Which of the following policies is most likely to result in a decrease in demand inflation and an increase in cost inflation?

(A) A decrease in non-discretionary government expenditure and loose monetary policy

(B) An increase in non-discretionary government expenditure and increased import tariffs

(C) An increase in discretionary government expenditure and a reduction in subsidies to producers

(D) A decrease in discretionary government expenditure and a depreciation of the domestic currency

12 The table shows selected data for a hypothetical economy.

Year	C	S	I
1	100	50	400
2	200	150	400
3	300	250	400

What is the value of the multiplier?

(A) 0.2

(B) 0.5

(C) 1.0

(D) 2.0

13 Which of the following is most likely to occur when a budget deficit is funded by selling new government securities?

(A) Money supply will increase.

(B) Current account deficit will rise.

(C) Private sector borrowing costs will rise.

(D) Private sector investment levels will increase.

14 Which of the following is most likely to shift both the aggregate demand and aggregate supply curve to the right?

(A) An increase in investment and a reduction in subsidies to producers

(B) An increase in the budget deficit and a decrease in the cost of labour

(C) An increase in the productivity of labour and an increase in interest rates

(D) An increase in the budget surplus and an increase in the cost of raw materials

15 Which statement best describes public goods?

(A) They are provided at zero marginal costs.

(B) Property rights tend to be easily defined.

(C) Their price incorporates social costs.

(D) They are non-rival and excludable.

16 Which scenario best demonstrates the benefits of a fixed exchange rate system?

(A) A country experiencing a recession fixes its currency to that of a country in which interest rates are low.

(B) A country experiencing a boom fixes its currency to that of a country experiencing a recession.

(C) A country experiencing a recession fixes its exchange rate above the equilibrium rate.

(D) A country experiencing a boom fixes its exchange rate below the equilibrium rate.

17 The table shows the human development index (HDI) values for two countries.

Country	HDI
A	0.3
B	0.9

Which statement is most consistent with the HDI data given?

(A) Adult literacy rates are higher in Country *A* than in Country *B*.

(B) The level of urbanisation is greater in Country *A* than Country *B*.

(C) The population growth rate in Country *A* is higher than in Country *B*.

(D) Public institutions are more developed in Country *A* than in Country *B*.

18 The table shows selected data on the composition of Australia's GDP by industry.

Industry	1950 (% GDP)	2008 (% GDP)
Agriculture	40	5
Mining	30	5
Manufacturing	20	10
Services	10	80

Which of the following is most likely to explain the trends in the table?

(A) A decline in rural population and increased global demand for commodities

(B) Greater financial integration and reduced levels of protection for Australian manufacturers

(C) The deterioration of tourism infrastructure and the discovery of new mineral deposits outside Australia

(D) The rise of efficient manufacturers in developing economies and an increase in the demand for agricultural products

19 The diagram refers to the distribution of income and wealth in a hypothetical economy.
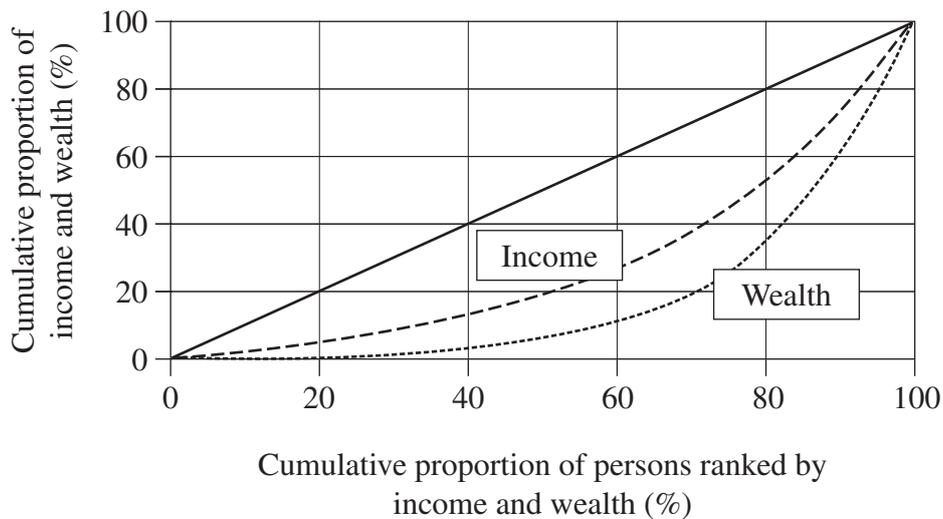
According to the diagram, which statement is correct for this economy?

(A) Wealth has a higher Gini coefficient than income and the distribution of wealth is more unequal than the distribution of income.

(B) Income has a higher Gini coefficient than wealth and the distribution of income is more unequal than the distribution of wealth.

(C) Wealth has a lower Gini coefficient than income and the distribution of wealth is more unequal than the distribution of income.

(D) Income has a higher Gini coefficient than wealth and the distribution of income is more equal than the distribution of wealth.

20 What would be the likely impact on an economy if the government increased quotas on imported cars?

(A) The domestic price of cars would increase.

(B) The market share of domestic producers would decline.

(C) The supply of cars in the domestic market would decrease.

(D) Foreign producers would find it more difficult to access the domestic market.

Economics

Centre Number

Section II

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.

Question 21 (10 marks)

(a)   The table shows data for a nation's terms of trade.

Year	Export Price Index	Import Price Index
1	100	100
2	92	115
3	96	116

Using the information in the table, calculate the terms of trade for this nation in Year 2 and identify the trend from Year 2 to Year 3.

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(b)   Why has there been an increase in Australia's service exports in the last two decades?

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Question 21 (continued)

(c) Why has the value of Australia's imports from Asia increased in the last two decades?   **2**

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(d) Explain why Australia is consistently a net importer of capital.   **4**

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End of Question 21

Centre Number

Student Number

Question 22 (10 marks)

(a) Distinguish between a newly industrialised country (NIC) and a transition economy.   **2**

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(b) Briefly explain why the world economy is experiencing international convergence.   **3**

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Question 22 (continued)

(c) Explain the role of trade and investment in promoting the globalisation process in an economy other than Australia. **5**

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Economics

Centre Number

Student Number

Question 23 (10 marks)

(a)   The table shows employment data for a hypothetical economy.

Year	Employed Persons	Unemployed Persons	Working Age Population
1	510 000	90 000	1 000 000
2	600 000	150 000	1 100 000

(i)   Calculate the change in the unemployment rate from Year 1 to Year 2.   **1**

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(ii)   With reference to the table, outline the cause of the change in the   **2**
unemployment rate from Year 1 to Year 2.

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Question 23 (continued)

(b) Briefly explain the effects of long-term unemployment on the Australian economy.

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(c) Explain how fiscal policy can be used to increase the labour force participation rate.

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End of Question 23

Centre Number

Section II (continued)

Student Number

Question 24 (10 marks)

(a)   The graph shows the market for $A in terms of $US.   **2**
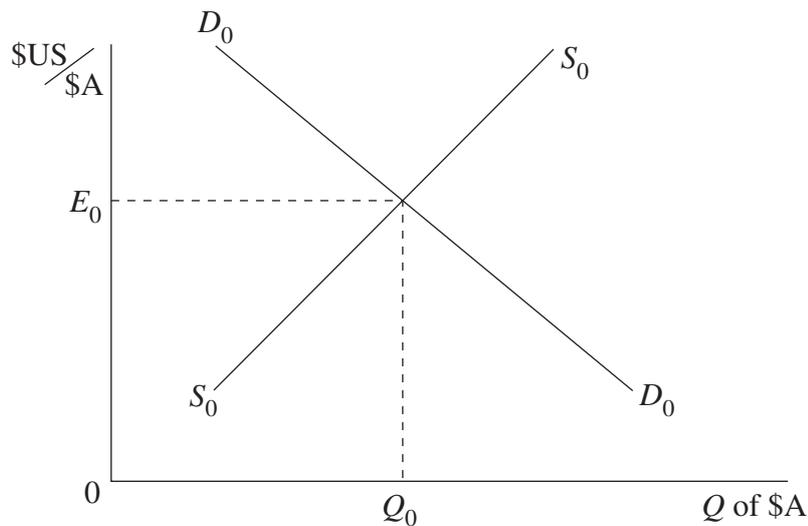
The market is initially in equilibrium at an exchange rate E_0 and a quantity of $A at Q_0.

On the diagram, draw the new equilibrium which results if there is a reduced demand for foreign assets by Australian investors. Label the new equilibrium exchange rate and quantity, E_1 and Q_1.

Question 24 (continued)

(b) The table shows the value of Australia's currency against Country *A* and   **3**
Country *B*, under a floating exchange rate.

Year	Country A Currency units/$A	Country B Currency units/$A
1	0.90	0.70
2	0.80	0.75
3	0.70	0.80

Briefly explain the trends in Australia's exchange rate with Country *A* and
Country *B*.

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Question 24 (continued)

(c) Explain the possible impacts of loose monetary policy on the value of the exchange rate and on economic growth in Australia. **5**

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End of Question 24

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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 a 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)

Discuss the economic concerns that the Australian Government takes into account when formulating policies to manage the environment. In your response, you should refer to the economic information provided.

Awaiting copyright

OR

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)

Discuss the consequences for Australia of an unequal distribution of income and wealth, and the policies that can be used to address this issue. In your response, you should refer to the economic information provided.

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Source: ABS, 2007, *Household and Income Distribution 2005–2006*.

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:
- ■ 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)

Analyse the causes and effects of fluctuations in Australia's external stability.

OR

Question 28 (20 marks)

Analyse the effects of protectionist trade policies on the Australian economy.

End of paper

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