



Name: _____

Beverly Hills Girls' High School

2011

TRIAL HIGHER SCHOOL CERTIFICATE
EXAMINATION

Economics

General Instructions

- Working time - 3 hours
- Write using black or blue pen
- Board-approved calculators may be used
- Write your name at the top of this paper and on each Extended Response.
- Answer Section I & II on this paper.
Answer Sections III & IV on the lined pad paper provided.

Total marks - 100

Section I

Multiple Choice

20 marks

- Attempt Questions 1-20

Section II

Short Answers

40 marks

- Attempt Questions 21-24

Section III

Extended Response

20 marks

- Attempt either Question 25 or Question 26

Section IV

Extended Response

20 marks

- Attempt either Question 27 or Question 28

1. What will be the likely impact on the Australian economy if the Federal Government reduced the size of the budget deficit during the early phase of a recovery?
 - (A) An increase in economic growth
 - (B) An increase in the level of employment
 - (C) A decrease in the level of funds available to the private sector
 - (D) A decrease in the discretionary spending on public infrastructure projects

2. Which of the following is included as a debit on the financial account of the balance of payments?
 - (A) Expenditure by Australian residents on imported goods
 - (B) Payment of dividends to foreign investors
 - (C) Australians investing in overseas projects
 - (D) Payment of overseas pensions to foreign citizens

3. The following table shows selected data for an economy.

Year	Gini co-efficient	Nominal GDP (\$m)	Consumer Index Price
1	0.310	\$450m	100
2	0.313	\$550m	110
3	0.318	\$700m	120

Which of the following statements is correct?

- (A) From Year 1 to Year 3 the distribution of income is more equitable and real GDP has increased.
- (B) From Year 1 to Year 3 the distribution of income is more equitable and real GDP has decreased.
- (C) From Year 1 to Year 3 the distribution of income is more unequal and real GDP has decreased.
- (D) From Year 1 to Year 3 the distribution of income is more unequal and real GDP has increased.

- 4 What is the most likely cause of an increase in petrol prices?
- (A) Disruptions to oil production in oil exporting countries
 - (B) Oil exporting countries expanding oil supply to world markets
 - (C) Cuts in excise duty on fuel imposed by the federal government
 - (D) Decreased world demand for oil
- 5 Which of the following measures is likely to generate a more equal distribution of income among individuals in Australia?
- (A) Increased minimum wages
 - (B) A decrease in the top rate of marginal income tax
 - (C) Decreased welfare payments
 - (D) An increase in the rate of Goods and Services Tax
- 6 The following table shows selected data for an economy in equilibrium.

Injection/Leakage	\$ millions
Exports	90
Taxation	50
Imports	?
Savings	240
Investment	200
Government expenditure	100

What is the level of imports for this economy?

- (A) \$90m
 - (B) \$200m
 - (C) \$100m
 - (D) \$290m
7. Which of the following macroeconomic policies could be used to increase the level of aggregate demand in the Australian economy?
- (A) An increase in the size of the budget surplus
 - (B) The buying of government securities by the Reserve Bank
 - (C) Labour market reforms to lift the level of productivity and output
 - (D) A freeze on public sector wage claims

8. Which of the following economic goals would indicate the successful implementation of microeconomic reforms by the Australian government?
- (A) An increase in the current account deficit and an increase in the level of employment
 - (B) An increase in inflation and an increase in the level of employment
 - (C) A decrease in the current account deficit and a decrease in inflation
 - (D) An increase in economic growth and an increase in the current account deficit

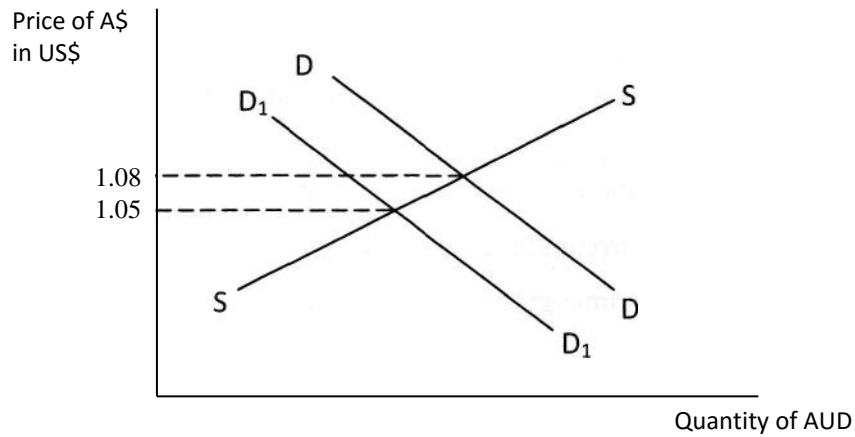
9. The following table shows selected data for an economy.

Change in autonomous investment (ΔI)	\$300m
Change in the equilibrium level of income (ΔY)	\$ 1500m

What is the value of the marginal propensity to consume (MPC) which determined the new equilibrium level of national income?

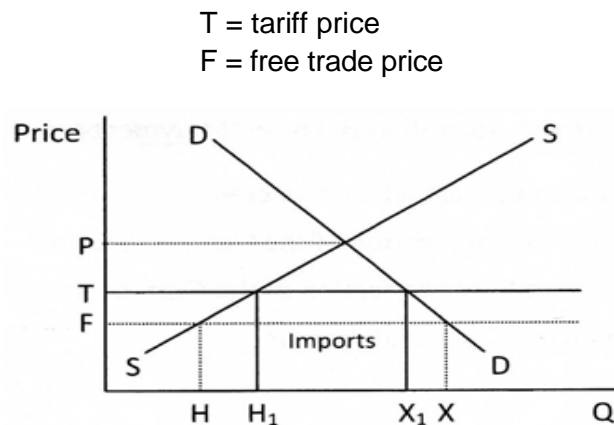
- (A) 5.0
 - (B) 0.8
 - (C) 0.2
 - (D) \$ 1200m
10. Where would the payment by British Petroleum in the UK to BHP Billiton in Australia for new gas leases appear in the Australian Balance of Payments?
- (A) A debit in the Capital and Financial Account
 - (B) A debit in the Primary Income section of the Current Account
 - (C) A debit in the Goods and Services section of the Current Account
 - (D) A credit in the Capital and Financial Account

- 11 The following diagram shows the foreign exchange market for Australian dollars.



Which of the following could have caused the fall in the value of the Australian dollar?

- (A) Lower global commodity demand
 - (B) Higher interest rates in Australia
 - (C) Positive expectations about the Australian dollar
 - (D) Reserve Bank purchases of Australian dollars in the foreign exchange market
- 12 The following diagram shows the effect of a tariff.



What effect does the imposition of the tariff have on domestic supply?

- (A) Domestic supply falls from HX to H₁X₁
- (B) Domestic supply rises from the free trade price to the tariff price.
- (C) Domestic supply is HX.
- (D) Domestic supply rises from H to H₁.

13 Which of the following is an example of discretionary fiscal policy?

- (A) Changes in taxation rates by the government in its budget
- (B) Increases in welfare payments due to poor economic growth
- (C) Decreases in taxation revenue due to strong economic growth
- (D) A change in the budget outcome from a deficit to surplus

14 The following table shows the Consumer Price Index (CPI) for an economy.

Year	CPI
1	100
2	103.9
3	108.4
4	111.5

What is the inflation rate for Year 4?

- (A) 11.5%
 - (B) 2.9%
 - (C) 4.0%
 - (D) 3.5%
- 15 Which of the following international organisations lends funds to developing countries for economic development?
- (A) The World Bank
 - (B) The International Monetary Fund (IMF)
 - (C) The Group of Seven (G7)
 - (D) The Asia Pacific Economic Co-operation forum (APEC)
- 16 What is an advantage of international economic integration?
- (A) A greater role for transnational corporations in economic policy
 - (B) More widespread use of tariffs and subsidies in world trade
 - (C) Greater economies of scale in global production
 - (D) Less emphasis on bilateral and multilateral trade agreements

- 17 The following table shows balance of payments data for an economy with a floating exchange rate.

Exports of goods	\$500 billion
Imports of goods	\$600 billion
Net services	-\$100 billion
Net primary income	-\$200 billion
Net secondary income	\$15 billion
Capital account	\$85 billion
Financial account	\$285 billion
Reserve assets	\$15 billion

According to the information in the table which of the following statements is correct for this economy?

- (A) The goods and services balance is a surplus of \$1000 billion.
 - (B) The current account is in deficit of \$385 billion.
 - (C) The balance on capital and financial account is a surplus of \$370 billion.
 - (D) The balance of payments is in deficit by \$ 1200 billion.
- 18 What would be two indicators of an easing in monetary policy in Australia?
- (A) Lower interest rates and selling of government securities
 - (B) Lower interest rates and lower tax rates
 - (C) Lower interest rates and the purchasing of government securities
 - (D) Higher interest rates and the purchasing of government securities

19 The following labour force data is for a hypothetical economy.

Working Age of the Population	Full Time Employed	Part Time Employed	Unemployed
18,000,000	7,800,000	3,300,000	600,000

What is the participation rate for this economy?

- (A) 61.6%
 - (B) 5.4%
 - (C) 6.4%
 - (D) 65.0%
- 20 Which of the following are indicators of an improvement in the quality of life in a developing country?
- (A) Rising levels of income, environmental pollution and crime
 - (B) Rising levels of literacy, malnutrition and access to clean water
 - (C) Rising levels of life expectancy, literacy and income
 - (D) Rising levels of exports, foreign debt and political stability

Section II

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)

Marks

The table shows selected economic data for the Australian economy.

Time period	Exchange rate of the \$A against the \$US	Trade Weighted Index
May 20 10	0.85	67.7
May 20 11	1.07	77.8

- (a) Outline TWO measures of determining Australia's exchange rate. 2

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- (b) Outline TWO factors which may have contributed to the change in the value of the
2 Australian dollar against the \$US between May 2010 and May 2011.

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Question 21 continues on the next page

Question 22 (continued)

Marks

- (c) With reference to the diagram, explain how the Government could use ONE policy to correct market failure in the emissions of carbon and discuss TWO economic impacts on Australia of this change in Government policy.

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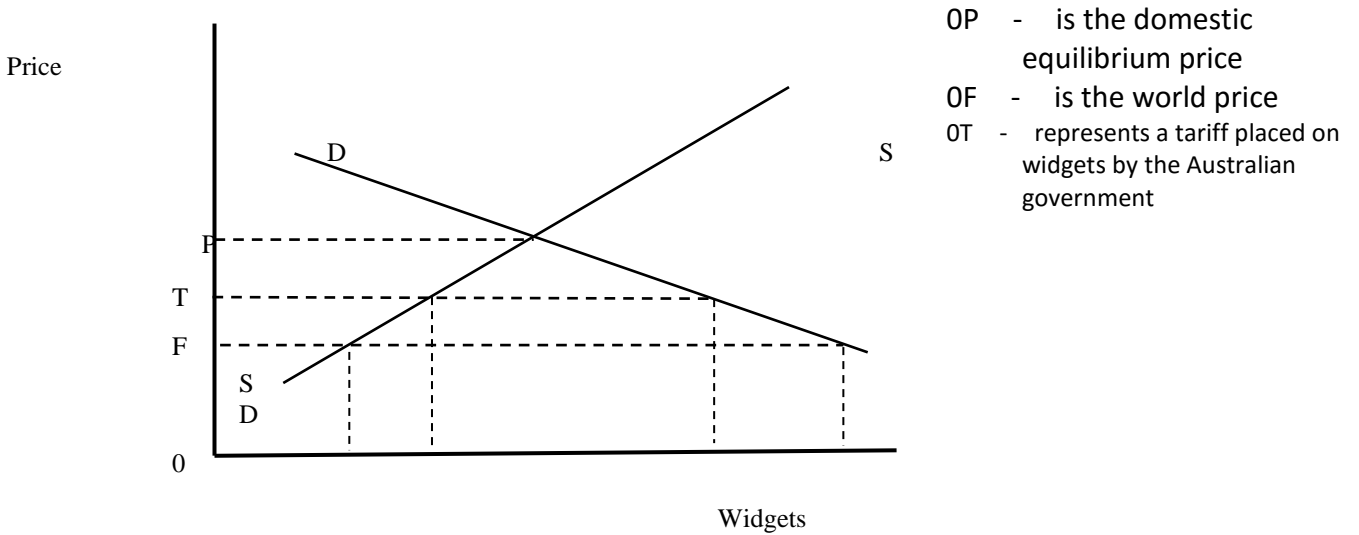
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End of Question 22

Question 23 (10 marks)

Marks

The diagram below represents the impact of a tariff on the Australian market for widgets.



- a) Referring to the diagram above, identify TWO effects of the removal of the tariff. 2

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- b) Described ONE multilateral or bilateral agreement in which Australia is engaged 2

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- c) Explain how trade agreements have an impact on free trade. 3

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d) Discuss the role of the World Trade Organisation in promoting free trade.

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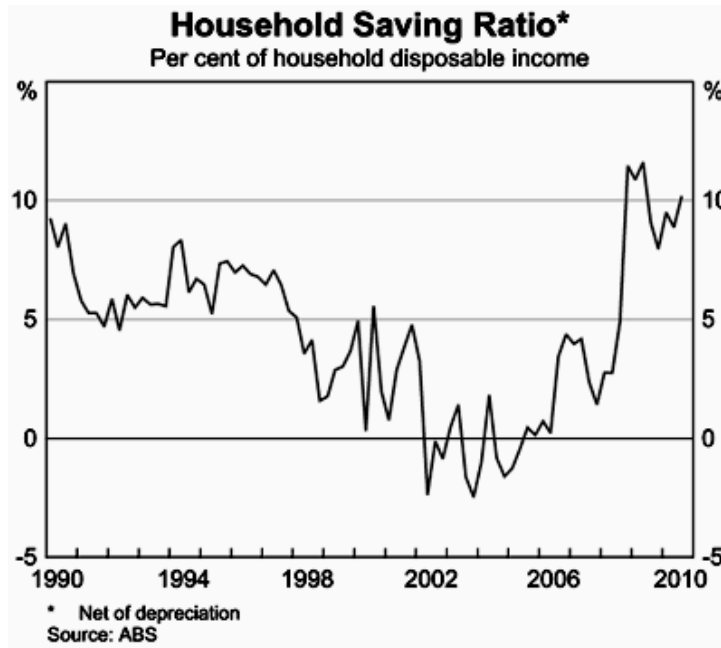
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Question 24 (10 marks)

Marks

The diagram below shows the savings ratio of Australians as a percentage of their disposable income.



a) Define the term *saving*. 1

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b) Describe the trend in household savings in Australia from 2006 - 2010. 1

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c) Describe ONE factor contributing to this trend. 2

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d) Describe the relationship between Australia's savings and the balance of payments.

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Section III

20 marks

Attempt either Question 25 or Question 26

Allow about 35 minutes for this section

Answer the question on the writing paper provided. Start the question on a new page.

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)

Explain the use of fiscal policy by the Australian Government in recent years to achieve its objectives.

"As Australia takes advantage of its new opportunities and manages the process of structural change, the task for the Reserve Bank of Australia (RBA) is to keep inflation low and stable. By doing this, we can help promote sustainable growth in jobs as well as economic and financial stability. Over the past 20 years, low inflation has been a key ingredient to Australia's economic success and maintaining that record will help us meet the challenges that lie ahead."

Source: Philip Lowe, Assistant Governor, Reserve Bank of Australia, Inflation: The Recent Past and the Future, 24th June 2011.

"The medium-term outlook for the economy continues to be dominated by the expected build-up in mining investment and the boost to incomes from the high terms of trade. Providing a partial offset to these factors, monetary policy is mildly restrictive, the

exchange rate has appreciated substantially and fiscal policy will be contractionary over the next couple of years. Nevertheless, inflationary pressures are expected to build gradually over the forecast period as spare capacity is absorbed and the labour market continues to tighten."

Source: Reserve Bank of Australia (2011), Statement on Monetary Policy, May.

OR

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Page 18

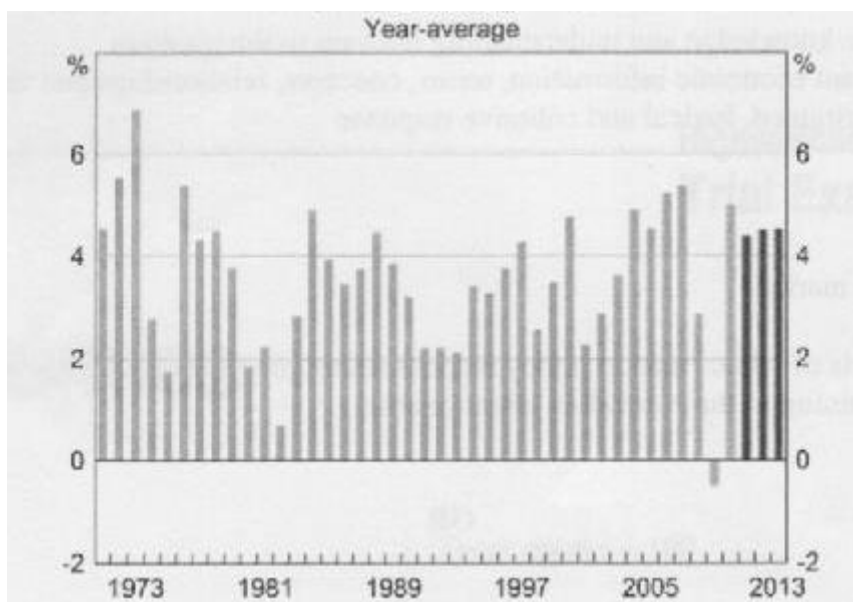
In your answer you will be assessed on how well you:

- 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)

Explain the impact of changes in the global economy on Australia's trade and financial flows.

World GDP Growth



■ IMF forecast

Source: Reserve Bank of Australia (2011), *Statement on Monetary Policy*, May.

"The large increases in bulk commodity contract prices have significantly boosted Australia's export revenues, with the trade balance in the December quarter recording its largest surplus as a share of GDP since the early 1970s. The current account deficit in the past three quarters averaged 1.8 per cent of GDP, well below the average deficit of 4.5% over the preceding decade.

The significant increase in contract prices has also contributed to an estimated increase of around 20% in Australia's terms of trade over the year to the March quarter, taking them to around 95% above the average of the 1990s. The large rise in the terms of trade over recent years has led to a significant appreciation of the exchange rate, which in real terms is around the levels of the mid 1970s.

Source: Reserve Bank of Australia (2011), *Statement on Monetary Policy*, May.

Section IV

20 marks

Attempt either Question 27 or Question 28

Allow about 35 minutes for this section

Answer the question on the writing paper provided. Start the question on a new page.

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)

Discuss the effects of an appreciation on the Australian economy.

OR

Question 28 (20 marks)

Discuss the influence of globalisation on an economy other than Australia and evaluate the strategies used in this economy to promote economic growth and development.

End of paper

Question 25

Explain the use of fiscal policy by the Australian Government in recent years to achieve its objectives.

Outcomes assessed: HI, H5, H6, H8, H10

Criteria	Marks
<ul style="list-style-type: none"> • Provides a clear, comprehensive and balanced understanding of the use of fiscal policy to achieve the Government's objectives • Integrates an extensive and appropriate range of economic terms with relevant concepts, relationships and theory • Synthesises own knowledge with the economic information provided to develop a sustained, logical and cohesive response 	17-20
<ul style="list-style-type: none"> • Provides a clear and comprehensive understanding of the use of fiscal policy to achieve the Government's objectives • Integrates an appropriate range of economic terms, relevant concepts, relationships and theory • Uses own knowledge and the information provided to develop a logical and cohesive response 	13-16
<ul style="list-style-type: none"> • Provides a sound understanding of the use of fiscal policy to achieve the Government's objectives • Applies appropriate economic terms, concepts and relationships • Uses own knowledge and the information provided to develop a cohesive response 	9-12
<ul style="list-style-type: none"> • Sketches in general terms aspects of fiscal policy but fails to establish how the policy is used to achieve the govt's objectives • Uses some appropriate economic terms, concepts and relationships • Uses the economic information provided to develop a generalised response 	5-8
<ul style="list-style-type: none"> • Lists some limited information about economic policies • Uses some economic terms and/or concepts • Presents a limited response 	1-4
Mark Awarded	

Question 26

Explain the impact of changes in the global economy on Australia's trade and financial flows.

Outcomes assessed: H1, H2, H3, H4, H5, H6, H7, H8, H9, H10

Criteria

	Marks
<ul style="list-style-type: none">• Demonstrates a clear and concise understanding of the impact of changes in the global economy on Australia's trade and financial flows• Integrates appropriate economic terms, relevant concepts, relationships and theory in the extended response answer• Synthesises own information with the information provided to develop a sustained, logical and well-structured response to the question	17-20
<ul style="list-style-type: none">• Demonstrates an understanding of the impact of changes in the global economy on Australia's trade and financial flows• Consistently uses appropriate economic terms, relevant concepts, relationships and theory• Uses own information and the information provided to develop a logical and well-structured response	13-16
<ul style="list-style-type: none">• Describes the impact of changes in the global economy on Australia's trade and financial flows• Uses appropriate economic terms, concepts and relationships• Uses own information and the information provided to develop a coherent response	9-12
<ul style="list-style-type: none">• Outlines some of the impact of changes in the global economy on Australia's trade and financial flows• Uses some appropriate economic terms, concepts and relationships• Uses own information to develop a generalised response	5-8
<ul style="list-style-type: none">• Lists some impact of changes in the global economy on Australia's trade and financial flows	1-4
Mark Awarded	

Question 27

Discuss the effects of an appreciation of the Australian dollar on the Australian economy.

Outcomes assessed: H1, H2, H3, H4, H5, H6, H7, H8, H9, H10

Criteria

	Marks
<ul style="list-style-type: none">• Demonstrates a clear and concise understanding of the impact of an appreciation of the Australian dollar on the Australian economy• Integrates appropriate economic terms, relevant concepts, relationships and theory in the extended response answer• Synthesises own information with the information provided to develop a sustained, logical and well-structured response to the question	17-20
<ul style="list-style-type: none">• Demonstrates an understanding of the impact of an appreciation of the Australian dollar on the Australian economy• Consistently uses appropriate economic terms, relevant concepts, relationships and theory• Uses own information and the information provided to develop a logical and well-structured response	13-16
<ul style="list-style-type: none">• Describes the impact of an appreciation of the Australian dollar on the Australian economy• Uses appropriate economic terms, concepts and relationships• Uses own information and the information provided to develop a coherent response	9-12
<ul style="list-style-type: none">• Outlines some of the impact of an appreciation of the Australian dollar on the Australian economy• Uses some appropriate economic terms, concepts and relationships• Uses own information to develop a generalised response	5-8
<ul style="list-style-type: none">• Lists some impact of an appreciation of the Australian dollar on the Australian economy	1-4
Mark Awarded	

Question 28

Discuss the influence of globalisation on an economy other than Australia and evaluate the strategies used in this economy to promote economic growth and development.

Outcomes assessed: HI, H2, H3, H4, H5, H7, H9, H1

<ul style="list-style-type: none"> • Integrates extensive and relevant economic terms, concepts, relationships and theories • Provides comprehensive economic information in a sustained logical and cohesive response • Demonstrates a clear and comprehensive knowledge and understanding of the influence of globalisation on an economy other than Australia and evaluates the strategies used to promote economic growth and development 	
<ul style="list-style-type: none"> • Integrates relevant economic terms, concepts, relationships and theories • Provides sound economic information in a logical and cohesive response • Demonstrates a sound understanding of the influence of globalisation on an economy other than Australia and evaluates the strategies used to promote economic growth and development 	
<ul style="list-style-type: none"> • Applies economic terms, concepts and relationships • Develops a coherent response • Sketches in general terms the influence of globalisation on an economy other than Australia and the strategies used to promote economic growth and development 	
<ul style="list-style-type: none"> • Uses some economic terms, concepts and relationships • Develops a generalised response • States some aspects of the influence of globalisation on an economy other than Australia and the strategies used to promote economic growth and development 	
<ul style="list-style-type: none"> • Uses some economic terms and/or concepts • Presents a limited response • Lists some effects of the influence of globalisation on an economy other than Australia and the strategies used to promote economic growth and development 	
Mark awarded	

