



Beverly Hills Girls' High

2010

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.

Name: _____

Teacher: _____

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

SECTION I

Total marks (20)

Attempt Questions 1 –20

Allow about 35 minutes for this section

Answer the questions on the answer sheet provided

1. What is a key factor behind globalisation?
 - A.) A decline in protection worldwide
 - B.) The development of common currency systems
 - C.) The reduction in global tensions
 - D.) The development and spread of technology

2. Which of the following organisations is involved in wage setting practices?
 - A.) Work Choices
 - B.) Industrial Relations Commission
 - C.) Fair Work Australia
 - D.) Fair Work Ombudsman

3. What is the opportunity cost of unemployment?
 - A) The unemployment benefits that have to be paid
 - B) Tax revenue lost from unemployed persons
 - C) The wages lost by being unemployed
 - D) The lost output that occurs as a result of unemployment

4. What part of the economy is micro-economics a study of? Wording here is a bit messy
 - A.) At the national level
 - B.) At the international level
 - C.) At the industry level
 - D.) At the government level

5. How are newly industrialised countries characterised?
 - A.) High rates of economic growth
 - B.) Equality of income and high living standards
 - C.) Low rates of economic growth
 - D.) An ability to influence other world economies

6. Which component of the Federal Budget is affected by the automatic stabilisers?
 - A) The balance of payments component
 - B) The cyclical component
 - C) The structural component
 - D) The discretionary component

7. Which is the most appropriate measure of the size of the global economy?
- A.) The value of World Trade in US dollar terms based on purchasing power parity index (PPP)
 - B.) The value of wealth in US dollar terms based on purchasing power parity index (PPP)
 - C.) The value of GDP in US dollar terms based on purchasing power parity index (PPP)
 - D.) The value of world financial transactions in US dollar terms based on purchasing power parity index (PPP)
8. When will real income increase?
- A.) Prices rising faster than productivity
 - B.) Prices fall faster than consumption
 - C.) Prices rise slower than money income
 - D.) Prices fall slower than nominal income

Question 9 is based on the following data for a closed economy

Year	Income \$	Consumption \$	Investment \$	Government \$
1	200	200	50	25
2	275	275	50	25
3	350	350	50	25

9. What would the government's fiscal policy stance be in year 2? Is this asking what the government did between Year 2 and Year 3
- A.) A neutral stance since the economy is moving towards equilibrium
 - B.) An expansionary fiscal stance since the economy is experiencing a recession
 - C.) A contractionary fiscal stance since the economy is experiencing inflation
 - D.) Increase government spending via a budget deficit.
10. What effect will a rise in aggregate demand have on an economy?
- A.) Reduce employment of resources, decrease inventories, increase employment
 - B.) Decrease the level of saving, decrease inventories, increase employment
 - C.) Reduce taxation revenue, increase employment of resources, increase inventory
 - D.) Decrease transfer payments, increase savings, decrease unemployment
11. Given the consumption function $C=1000+0.6Y$, what is the marginal propensity to save?
- A.) 0.4
 - B.) 0.6
 - C.) 400
 - D.) 1000

12. Which of the following has led to increased instability of global exchange rates?
- A.) The increase in direct investment and world trade
 - B.) The increase in currency speculation and portfolio investment
 - C.) The increase in the number of world conflicts
 - D.) The increase in world trade and improvements on technology
13. Which of the following will improve Australia's terms of trade?
- A.) Export prices rise more slowly than import prices
 - B.) Export prices fall more slowly than import prices
 - C.) Export quantities rise faster than import quantities
 - D.) Export quantities fall faster than import quantities
14. Which of the following would result in an increase in international competitiveness?
- A.) Rising inflation rates in the domestic economy
 - B.) Falling wage rates in the domestic economy
 - C.) Appreciation of the \$A
 - D.) Increased levels of protection in the Australian economy.
15. If over the next twelve months the labour force were to grow by 3% and output per person employed were to grow by 1% then what would be the minimum GDP growth rate necessary to prevent unemployment?
- A.) 2%
 - B.) 3%
 - C.) 4%
 - D.) 5%
16. Which of the following is regarded as conflicting economic goals
- A) Economic growth and ecological sustainable development
 - B) Inflation and unemployment
 - C) Economic growth and full employment
 - D) Income inequality and tax increases
17. Which of the following is an example of a multilateral approach to reducing world trade protection?
- A) Closer Economic Relations Trade Agreement (CERTA)
 - B) World Trade Organisation (WTO)
 - C) International Monetary Fund (IMF)
 - D) North Atlantic Treaty Organisation (NATO)

18. Which of the following international organisations has as its main aim in providing financial assistance for economies experiencing financial difficulties

- A) The World Bank
- B) World Trade Organisation (WTO)
- C) International Monetary Fund (IMF)
- D) The organisation for Economic Co-operation and development (OECD)

Question 19 refers to aggregate demand and aggregate supply curves for a nation.

19. What best explains the movement from AS to AS1?

- A) Improved economic conditions
- B) Restrictions on polluting industries
- C) Macroeconomic management
- D) Microeconomic reform

20. When aggregate demand exceeds the productive capacity of an economy, what is the impact on prices?

- A.) Rise
- B.) Fall
- C.) Remain unchanged
- D.) Rise at first but then fall

Section 11

Total marks (40)

Attempt Questions 21 – 24

Allow about 1 hour and 15 minutes for this section

Answer the questions in the spaces provided

Question 21. (10 marks)

Government policy needs to adopt the ‘strong sustainability’ ecological principle. Despite significant recent reforms, Australia.....is struggling to reverse environmental degradation. Problems of declining biological diversity, increasing land degradation, dryland salinity, loss of native vegetation, deteriorating air and water quality, poor river health, introduced species, greenhouse gas emissions, the absence of some representative ecosystems in national parks, and air, noise and water pollution are examples of regularly documented problems

a) What is meant by *ecological sustainable development*? 1

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b) Distinguish between private and public goods 2

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c) Why is market failure an important consideration when attaining ecological sustainable development? 2

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Question 22. (10 marks)

	1999-2000	2000-2001	2007-2008
	\$millions	\$millions	\$millions
Goods			
Exports (Credits)	97 655	120 302	182 816
Imports (Debits)	-110 610	-120 120	-205 089
Net Goods			
Services			
Credits	28 317	32 796	51 019
Debits	-29 713	-31 769	-50 254
Net Services			
Balance on goods and services			
Net income	-19 346	-19 750	-48 780
Current transfers	218	45	-344
Balance on current Account	-33 479	-18 496	-70 632

Table 1: Balance of Payments

a) What is the balance of payments?

2

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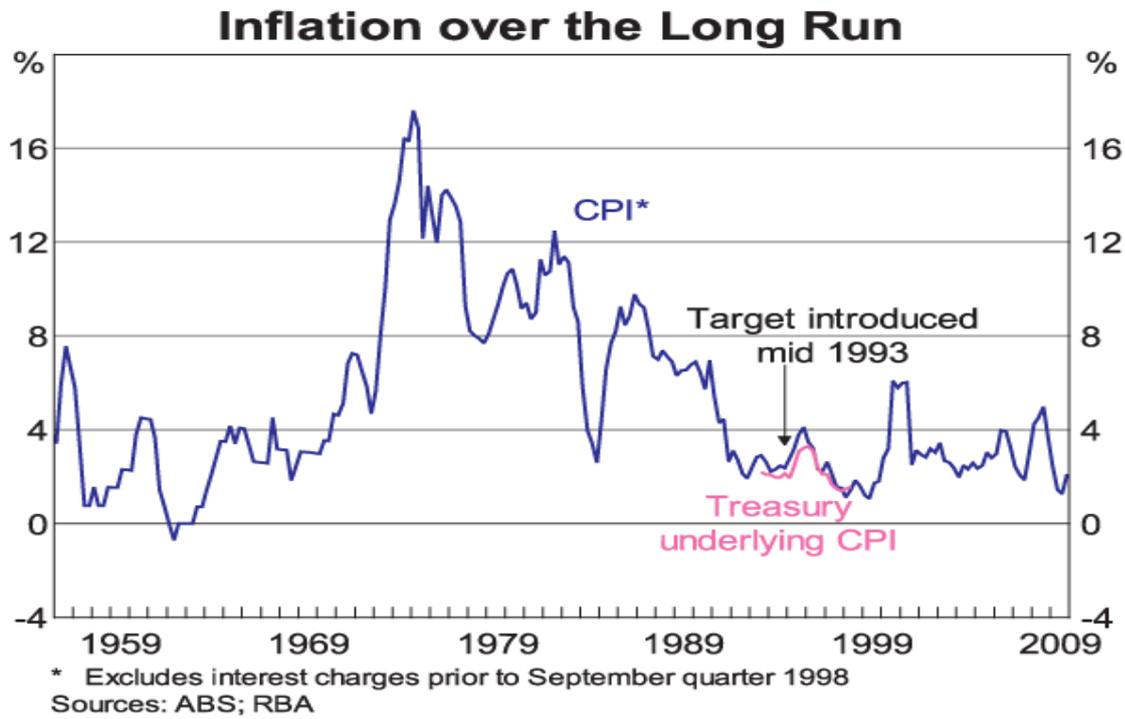
2

b) Calculate the balance on goods and services for 2007-2008

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Question 23. (10 marks)



a) What is inflation?

1

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b) Describe Australia's inflation record since inflation targeting.

2

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c) Outlining two possible causes of inflation.

2

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Question 24. (10 marks)

The following information refers to Australia and some of her trading partners.

Countries	Australia	China	Germany	Japan	UK	USA
Gini co-efficient	0.352	0.447	0.283	0.249	0.360	0.408

a) Distinguish between income and wealth.

2

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b) Refer to the stimulus material and explain Australia's level of inequality in terms of its trading partners.

2

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c) Explain ONE economic benefit and ONE social cost of income inequality in the Australian work force.

2

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Section 111

Total marks (20)

Attempt either Question 25 or Question 26

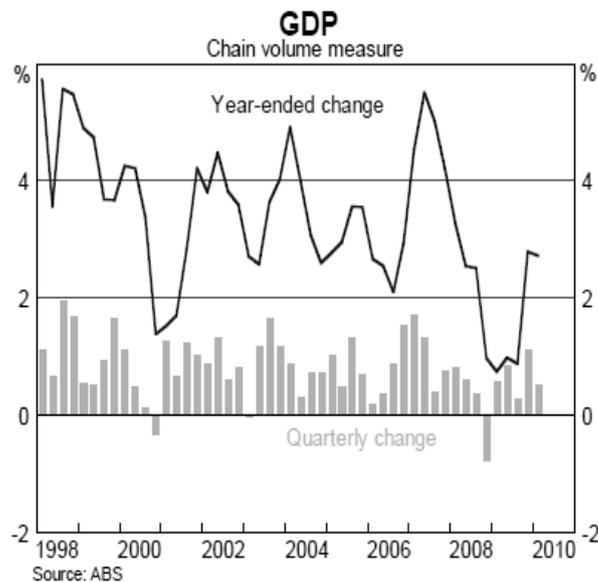
Allow about 35 minutes for this section.

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)

Discuss the effectiveness of government macroeconomic policies in maintaining the government goals of sustainable economic growth in recent times.



Last year's Budget was framed amid a sharply deteriorating world economy which was considered the most challenging global economic conditions since the Great Depression. In 2009, the global economy contracted for the first time in the post-war era. In contrast, Australia grew by almost 1½ per cent supported by monetary and fiscal policy stimulus, a well functioning banking system, and strong growth in a number of East Asian economies.

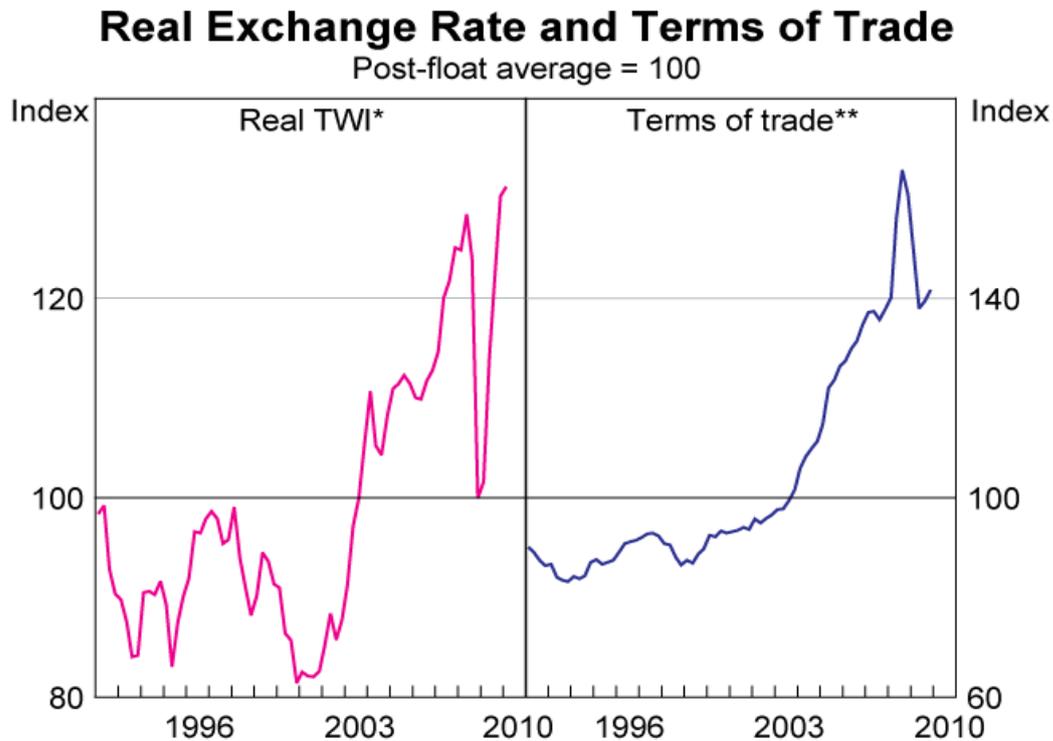
Budget Paper No 1 2010-11

Despite the good economic numbers, the current prevailing mood is not universally positive for the Australian economy. Risk of serious contraction may have passed, but business leaders are cautious about the speed of the economic recovery. Many expect business conditions to remain difficult....

Ken Henry, Treasury

Question 26 (20 marks)

Analyse the impact of the fluctuations in Australia's exchange rate on the economic performance of the Australian economy



* March quarter 2010 observation assumes that nominal exchange rates on 3 February are maintained for the remainder of the quarter, and uses the latest core inflation rates

** RBA estimate for December quarter 2009

Sources: ABS; RBA; Thomson Reuters

The Australian dollar has moved through a wide range, in part reflecting large portfolio adjustments by global investors. However, the movement in the exchange rate has once again proven to be an important means of assisting the Australian economy adjust to changes in the global economic environment. As on earlier occasions, the economy has proven to be resilient to these swings.

Guy Debelle
Assistant Governor of the RBA

Section IV**Total marks (20)****Attempt either Question 27 or Question 28****Allow about 35 minutes for this section**

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 causes of Australia's on-going current account deficit and its effects on external stability.

OR

Question 28 (20 marks)

Discuss the impacts of globalisation on the economic growth and development of an economy other than Australia

ANSWERS

Multiple choice

Nature of question	
1. D Global economy	11. A Economic Growth
2. C Labour Market	12. C Exchange Rates
3. D Labour Market	13. B Terms of Trade
4. C Microeconomics	14. B Microeconomics
5. A Global economy	15. C Economic Growth
6. B Fiscal Policy	16. A Conflicting Goals
7. C Global economy	17. B Global economy
8. D Inflation	18. C IMF
9. C Fiscal Policy	19. D Microeconomics
10. A Aggregate Demand	20. A Economic Growth

21. (10 marks)

- a. What is the principle of ecological sustainable development? 1
- is a level of development which takes into account the effects of growth on the environment by using the environment in such a way that the needs of both present and future generations can be met (intergenerational equity).
- b. Distinguish between private and public goods 2
Private goods are goods which are excludable and rival in that consumption by one individual reduces the amount which remains.
Public goods are goods which are non-excludable and non-rival, where consumption by one individual does not reduce the amount available to others.
- c. Why is market failure an important consideration when attaining ecological sustainable development? 2
Market failure occurs when the price mechanism has failed to take into account the social costs involved in the production of goods and services. These social costs –negative externalities-cannot be priced effectively and thus ecological sustainability is unable to be achieved
- d. Discuss the effectiveness of government policy responses to help achieve ecological sustainable development 5
The Australian Governments are attempting to include environmental issues on their agendas. At the national level sustainable development policies are being debated – greenhouse gas/climate change, E10, control on emissions-. At the state level NSW govt. - established EPA, water restrictions, recycling-. These measures have had some positive effects such as the cleaning of river systems, conserving energy- However governments have not been too successful in achieving many of the environmental issues such as soil degradation, pollution, salination- and until there is some restrictions to economic growth and proper pricing of public goods ESD will be difficult to achieve.

22 (10 marks)

Table 1 Current account components

- a) What is the balance of payments? 2
- ***is an official accounting record which summarises the economic transactions between residents of Australia and residents of other countries over a given period of time (including individuals, business and governments).***
- 2
- b) Calculate the balance on goods and services for 2007-2008
- ***Net goods – Net services = the balance on goods and services***
 - ***22 273 - 765 = -21 508***
- c) Identify the trend in the balance on current account, and account for this change 2
- ***Exports have been growing from 1999 to 2008. Imports have been increasing however in 2000-2001 import growth was less than export growth and then rapidly increased. Services have consistently increased and have improved over the period with a spike in 2000 - 2001***
- d) Outline the constraints of persistent current account deficits on the performance on the Australian economy 4
- ***Persistent CAD can lead to sustainability of debt servicing levels***
 - ***Economy becomes more vulnerable to external shocks***
 - ***Cost of borrowing increases – higher prices in the economy***
 - ***May conflict with internal policy goals eg. Economic growth and external constraints***
 - ***Attracting foreign investment difficult-leads to uncertainty***

23 (10 marks)

- a) What is inflation? 1
- ***Is a sustained rise in the general level of prices of goods and services.***
- b) Refer to the stimulus material and describe Australia's inflation record since inflation targeting 2
- ***RBA aims to keep inflation rate between 2-3% over the course of the business cycle. Inflation has been successfully maintained between this band however 2000 – GST caused a one of jump and in 2008 inflation jumped to 4% just before the GFC***
- c) Outling two possible causes of inflation 2
- ***Demand pull***
 - ***Cost push***
 - ***Imported***
 - ***Inflationary expectations***

- d) Analyse the benefits of sustained period of low inflation on Australia's economic performance. 5
- **Wages growth maintained and thus costs won't increase**
 - **Interest rates low and positive benefit to investors and consumers**
 - **Real income maintained**
 - **Export prices competitive and an increase in exports – remain internationally competitive**
 - **Little distortion in resource allocations**
 - **Little speculative investment**

24 (10 marks)

- a) Distinguish between income and wealth 2
- **Income is a flow which includes the return to the owners of resources (land, labour capital and enterprise) in the form of rent, wages, interest, profit and dividends..**
 - **Wealth is a stock of assets owned by individuals or families measured in money terms in a given period of time**
- b) Refer to the stimulus material and explain Australia's level of inequality in terms of its trading partners 2
- **Australia has a relatively higher gap between high and low income earners and this gap is growing**
 - **Australia has a much lower marginal rate of tax and thus there is less income distribution at the lower end and more income retention at the higher end**
 - **Wealthier people in Australia have high levels of investment which increases their income**
 - **In Japan and Germany taxes on the wealthy are higher and less investment for higher income earners**
 - **We are better than the USA and China because they have even lower rates of tax and provision of services to lower income groups is low**
- c) Explain why income inequality still exists in various sectors in the Australian work force 2
- **Varying levels of education**
 - **Gender differences**
 - **Ethnic circumstance**
 - **Regional differences**
 - **Particular sectors of the economy eg farming manufacturing**
- d) Outline TWO policy options available to the Australian government in addressing the inequality in the distribution of income and wealth. 4
- **Specific targeting certain groups –youth, aboriginals**
 - **Progressive taxation**
 - **Welfare payments**

Question 25 (20 marks)

Analyse Australia's monetary policy stance since 2000 and its effectiveness in managing the Australian economy.

MARKING GUIDELINES

Criteria	Marks
<ul style="list-style-type: none">▪ Demonstrates a clear and concise understanding of the issues relating to monetary policy stance and its effectiveness in managing the Australian economy▪ Integrates appropriate economic terms, relevant concepts, relationships and theory▪ Synthesises own information with the information provided to develop a sustained, logical and well-structured response	17-20
<ul style="list-style-type: none">▪ Demonstrates a clear understanding of the issues relating to monetary policy stance and its effectiveness in managing 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 issues relating to monetary policy stance and explains how monetary policy is used in managing 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 issues relating to monetary policy and how monetary policy can be used▪ Uses some appropriate economic terms, concepts and relationships▪ Uses information to develop a generalised response	5-8
<ul style="list-style-type: none">▪ Lists some issues relating to monetary policy and may mention how monetary policy may be used▪ Uses some economic terms and/or concepts▪ Presents a limited response	1-4

Answers

- **Monetary policy – purpose of monetary policy which includes stability of the currency, exchange rate stabilisation, full employment, economic growth**
- **Explains how monetary policy is implemented**
- **Monetary policy stance – maintaining inflationary pressures 2-3% over the course of the business cycle.**
- **An explanation of contractionary and expansionary monetary policy and the impact on the Australian economy**
- **Reference to 2000 - interest rates have become contractionary and currently as a consequence of the GFC interest rates have been expansionary. Currently interest rates are rising but still low**

Question 26 (20 marks)

Analyse the impact of the fluctuations in Australia's exchange rate on the economic performance of the Australian economy

MARKING GUIDELINES

Criteria	Marks
<ul style="list-style-type: none"> ▪ Demonstrates a clear and concise understanding of Australia's exchange rate and analyses its impact in Australia. ▪ Integrates appropriate economic terms, relevant concepts, relationships and theory ▪ Synthesises own information with the information provided to develop a sustained, logical and well-structured response 	17-20
<ul style="list-style-type: none"> ▪ Demonstrates a clear understanding of Australia's exchange rate and analyses its impact in Australia. ▪ 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 Australia's exchange rate and provides some understanding of its impact in Australia. ▪ 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 Australia's exchange rate and provides limited understanding of its impact in Australia. ▪ Uses some appropriate economic terms, concepts and relationships ▪ Uses information to develop a generalised response 	5-8
<ul style="list-style-type: none"> ▪ Makes some mention of an exchange rate and may list limited impact in Australia ▪ Uses some economic terms and/or concepts ▪ Presents a limited response 	1-4

Answer

- ***Explanation of Australia's free floating exchange rate –both appreciation and depreciation***
- ***Causes of a fluctuating exchange rate – demand for Aus. Dollars, due to Investment and levels of exports, interest rate differentials, speculation,***
- ***Effects of fluctuating dollar – eg appreciation –exports more expensive, imports cheaper, less capital inflow, CAD worsen, less inflation, could have negative impact on employment and business, foreign debt improves.***
- ***Currently Australia's exchange rate is rising – appreciation of the \$A.***

Question 27 (20 marks)

Discuss the effectiveness of government macroeconomic policies in maintaining the government goals of sustainable economic growth since 2007.

MARKING GUIDELINES

Criteria	Marks
<ul style="list-style-type: none"> ▪ Demonstrates a clear and concise analysis of macroeconomic policies and provides detailed information of the government's ability in achieving sustainable economic growth since 2007. ▪ Integrates appropriate economic terms, relevant concepts, relationships and theory ▪ Synthesises own information with the information provided to develop a sustained, logical and well-structured response 	17-20
<ul style="list-style-type: none"> ▪ Demonstrates a clear analysis of macroeconomic policies and provides information of the government's ability in achieving sustainable economic growth since 2007. ▪ 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 Australian government's macroeconomic policies and provides some information relating to sustainable economic growth since 2007. ▪ 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 aspects of the Australian government's macroeconomic policies and provides limited information relating to sustainable economic growth ▪ Uses some appropriate economic terms, concepts and relationships ▪ Uses information to develop a generalised response 	5-8
<ul style="list-style-type: none"> ▪ Mentions some aspects of the Australian government's macroeconomic policies and may mention some aspects of sustainable economic growth ▪ Uses some economic terms and/or concepts ▪ Presents a limited response 	1-4

Answers will include

- ***Explanation of macro policy - fiscal and monetary policy- stabilise fluctuations in the business cycle- relating to the downswing in Australia since 2007***
- ***Outline using statistics on the levels of economic growth in Australia since 2007***
- ***Explanation of sustainable economic growth – low levels of inflation, real GDP of 3-4% economic growth, full employment, external stability, environmental sustainability, welfare measures.***
- ***How effective have these policy been in achieving the points above since 2007.***
- ***Could include a brief comparison with other economies***

Question 28 (20 marks)

Discuss the effects of the global recession on economic growth and development in an economy other than Australia

MARKING GUIDELINES

Criteria	Marks
<ul style="list-style-type: none"> ▪ Demonstrates a clear and concise analysis of the global recession on economic growth and development. ▪ Supports the response with in-depth information from one or more economies other than Australia ▪ Integrates appropriate economic terms, relevant concepts, relationships and theory ▪ Synthesises own information with the information provided to develop a sustained, logical and well-structured response 	17-20
<ul style="list-style-type: none"> ▪ Demonstrates a clear analysis of the global recession on economic growth and development. ▪ Supports the response with information from one or more economies other than Australia ▪ 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 some effects of the global recession on economic growth and development. ▪ Supports the response with limited information from one or more economies other than Australia ▪ 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 effects of the global recession on economic growth and development. ▪ May use limited information from one or more economies other than Australia ▪ Uses some appropriate economic terms, concepts and relationships ▪ Uses information to develop a generalised response 	5-8
<ul style="list-style-type: none"> ▪ Outlines some effects of the global recession ▪ May refer to some examples of economies other than Australia ▪ Uses some economic terms and/or concepts ▪ Presents a limited response 	1-4

Answers are difficult to specify due to wide range of case studies. However some general points to cover:

- *Distinguish between economic growth and economic development –give specific examples*
- *Explanation of the global recession-*
- *Outline the performance of their selected countries with comparison to Australia and may include some other economies*
- *Impacts of the recession on their specific economy and reasons for the particular performance*

NAME.....

SECTION I

Total marks (20)

Attempt Questions 1 –20

Allow about 35 minutes for this section

Select the alternative A, B, C, or D that best answers the question. Fill in the response oval completely.

1. A B C D
2. A B C D
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