



# BEVERLY HILLS GIRLS HIGH

2006

## TRIAL HIGHER SCHOOL CERTIFICATE

Reading Time 5min

Working time 3hrs

# Economics

Name: \_\_\_\_\_

### General Instructions

- Reading time – 5 minutes
- Working time – 3 hours
- Write using blue or black pen
- Board-approved calculators may be used
- Answer Section I & II on this paper
- Answer Section III & IV on the ruled paper provided

#### Section I

Total marks (20)

Attempt Questions 1 – 20

Allow 35 minutes for this section

#### Section II

Total marks (40)

Attempt Questions 21 – 24

Allow about 1 hour and 15 minutes for this section

#### Section III

Total marks (20)

Attempt either Question 25 or Question 26

Allow about 35 minutes for this section

#### Section IV

Total marks (20)

Attempt either Question 27 or Question 28

Allow about 35 minutes for this section

**SECTION I**

**Total marks (20)**

**Attempt Questions 1 –20**

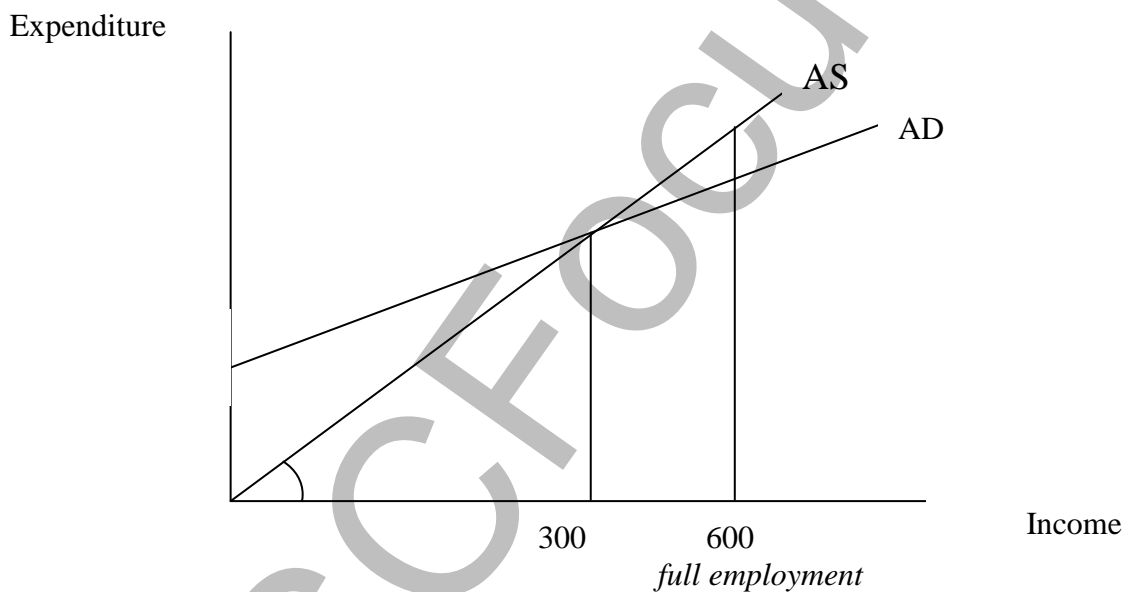
**Allow about 35 minutes for this section**

Answer the questions on this paper.

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1. What is the marginal propensity to consume?
  - A. The amount of income spent
  - B. The proportion of income spent
  - C. The amount spent out of a change in income
  - D. The proportion spent out of a change in income
  
2. 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

*Question 3 is based on the following information*



3. What would the government do to ensure full employment, if the MPC is 0.5?
  - A. Increase spending by \$300
  - B. Decrease spending by \$300
  - C. Increase spending by \$150
  - D. Decrease spending by \$150
  
4. What does a deterioration of the terms of trade mean?
  - A. More exports are needed to finance a given volume of imports
  - B. More imports are needed to finance a given volume of exports
  - C. The current account moved into deficit
  - D. The current account moved into surplus

Use the following data to answer question 5 below

C=80, I=20, G=25, M=30, S=10, T=15, X=25

- 5 What would happen to the level of income and employment in the economy?
- A. Income would rise and employment would increase
  - B. Income would fall and employment would increase
  - C. Income would fall and employment would decrease
  - D. The economy is in equilibrium
- 6 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)

The following information refers to the table below.

Year	Export Price Index	Import Price Index	Terms of Trade Index
1	100	100	100
2	110	105	?

- 7 What are the terms of trade for Year 2?
- A. 102
  - B. 105
  - C. 106
  - D. 108
- 8 What are the main advantages of microeconomic policies over macroeconomic policies for economic management?
- A. Macroeconomic policies are best used in the long run but raise inflation
  - B. Microeconomic policies can be used in the short run to lower inflation
  - C. Microeconomic policies can increase production with lower inflation and can address specific problems
  - D. All macroeconomic policies are blunt tools which impact evenly on all sectors of the economy
- 9 Which of the following most likely indicates a trend towards greater globalisation?
- A. Increases in the volatility of world interest rates
  - B. Increases in the value of global trade as a proportion of total output
  - C. Increases in the trade barriers between countries
  - D. Increases in the growth rates of developing nations

The following information refers to the table below.

Year	Government Expenditure \$b	Taxation Receipts \$b
1	75	90
2	85	95
3	80	100

- 10 What has happened to the government's fiscal stance between years 2 and 3?
- A. The budget surplus has increased
  - B. The budget surplus has decreased
  - C. The budget deficit has increased
  - D. The budget deficit has decreased
- 11 Which measurement of Australia's exchange rate give the best comparison to our main trading partners
- A. \$A per \$US
  - B. \$A per Euro
  - C. The trade weighted index
  - D. Flexible exchange rate
- 12 Which of the following is best shown by changes in Gross Domestic Product per capita?
- A. Changes in the quality of life
  - B. Changes in income distribution
  - C. Changes in economic growth
  - D. Changes in environmental quality
- 13 What effect would the shift of the Lorenz curve have on the gini-coefficient if it moved closer to the line of perfect equality?
- A. The gini-coefficient would increase and income inequality would rise
  - B. The gini-coefficient would decrease and income inequality would rise
  - C. The gini-coefficient would decrease and income inequality would fall
  - D. The gini-coefficient would increase and income inequality would fall
- 14 What does the Federal Government achieve by using its budget surplus to retire past debt?
- A. Decrease the Australian money supply
  - B. Decrease its future interest obligations
  - C. Increase the burden on future generations
  - D. Increase its contractionary fiscal stance
- 15 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

- 16 What would happen to the state of the economy if unemployment fell below the non-accelerating rate of unemployment?
- The inflation rate would increase
  - Economic growth will increase
  - Unemployment would rise
  - Interest rates will fall
- 17 What would be the effect of persistent current account deficits under a floating exchange rate?
- A currency depreciation and rising foreign debt
  - A currency depreciation and falling foreign debt
  - A currency appreciation and rising foreign debt
  - A currency appreciation and falling foreign debt
- 18 Which of the following would most likely improve Australia's international competitiveness?
- An appreciation of the Australian dollar
  - A larger budget deficit
  - Increased interest rates
  - Reduced transport costs in Australia
- 19 What type of investment occurs when a foreign firm builds new factories in Australia.
- Direct Investment
  - Foreign exchange dealings
  - Speculative investment
  - Portfolio investment

*Question 20 refers to the information below:*

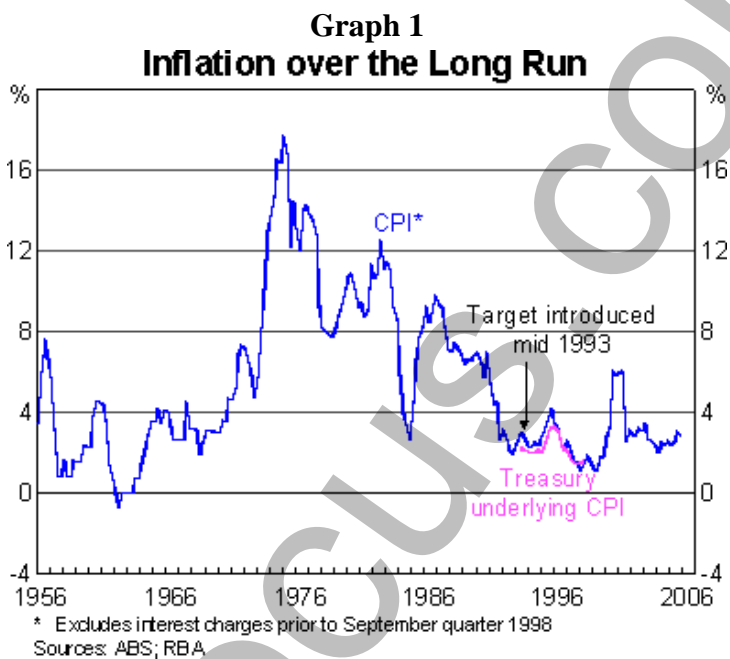
Population aged over 15	10,000,000
Number Employed	5,000,000
Number Unemployed	500,000

- 20 What is the participation rate?
- 55%
  - 50%
  - 10%
  - 9%

**Section II**  
**Total marks (40)**  
**Attempt Questions 21 – 24**  
**Allow about 1 hour and 15 minutes for this section**

Answer the questions in the spaces provided

21 (10 marks)



Using the graph above and your knowledge:

- a) What is inflation? 1  
.....
- b) How is it measured? 1  
.....  
.....
- c) Identify the trend of Australia's inflation rate since deregulation in 1980's of Australia's financial markets. 2  
.....  
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22 (10 marks)

<b>Balance of Payments</b>	<b>\$bn</b>
Net goods	-16
Net services	-5
Net income	-22.5
Net current transfers	-0.5
Capital account	2
Financial account	
Net errors & omissions	0

a) Define *current account*.

1  
3

.....

.....

b) Determine the value of the *financial account* in the above table.

1  
3

.....

c) Outline TWO reasons for Australia's persistent current account deficit in recent years.

2  
3

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d) Explain the relationship between the current account and foreign liabilities.

2  
3

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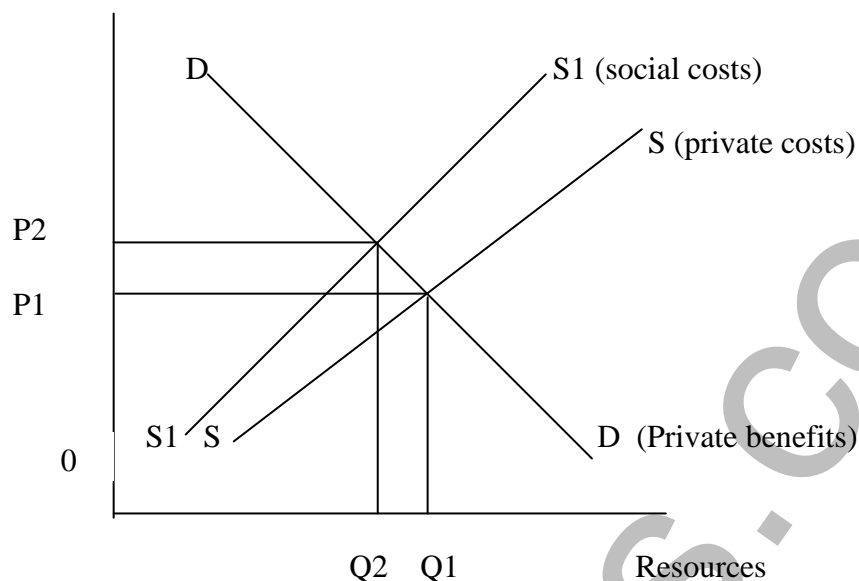
(e) Discuss TWO policies the government could use to improve Australia's current account balance.

4  
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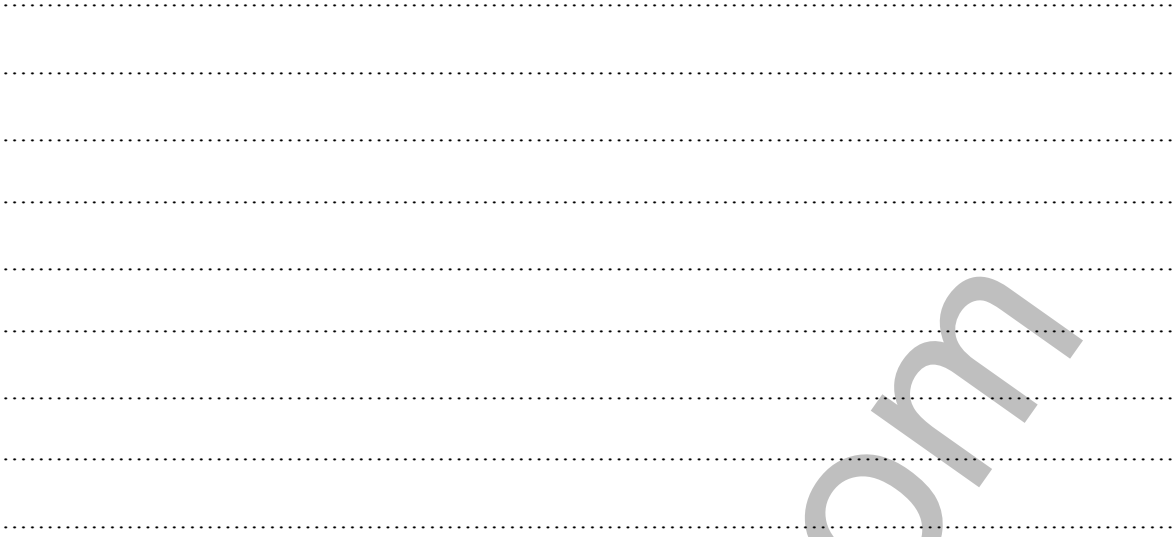
The diagram below shows the demand and supply curve of a firm.



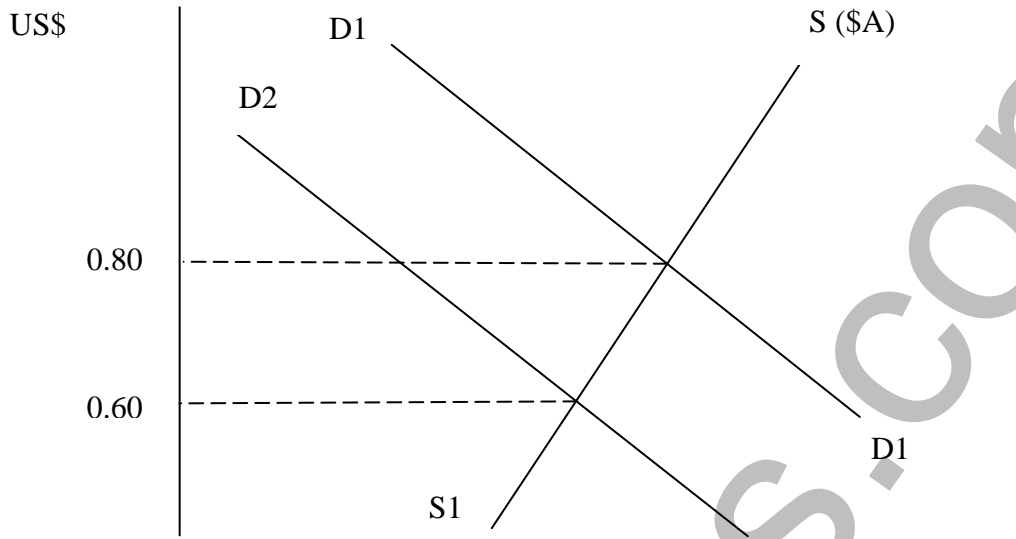
- a) What is market failure? 1
- b) Explain using the diagram above how this firm has helped to avoid market failure. 3
- c) Discuss the impact of the firm's decision above, on economic growth, ecological sustainable development and intergenerational equity. 6

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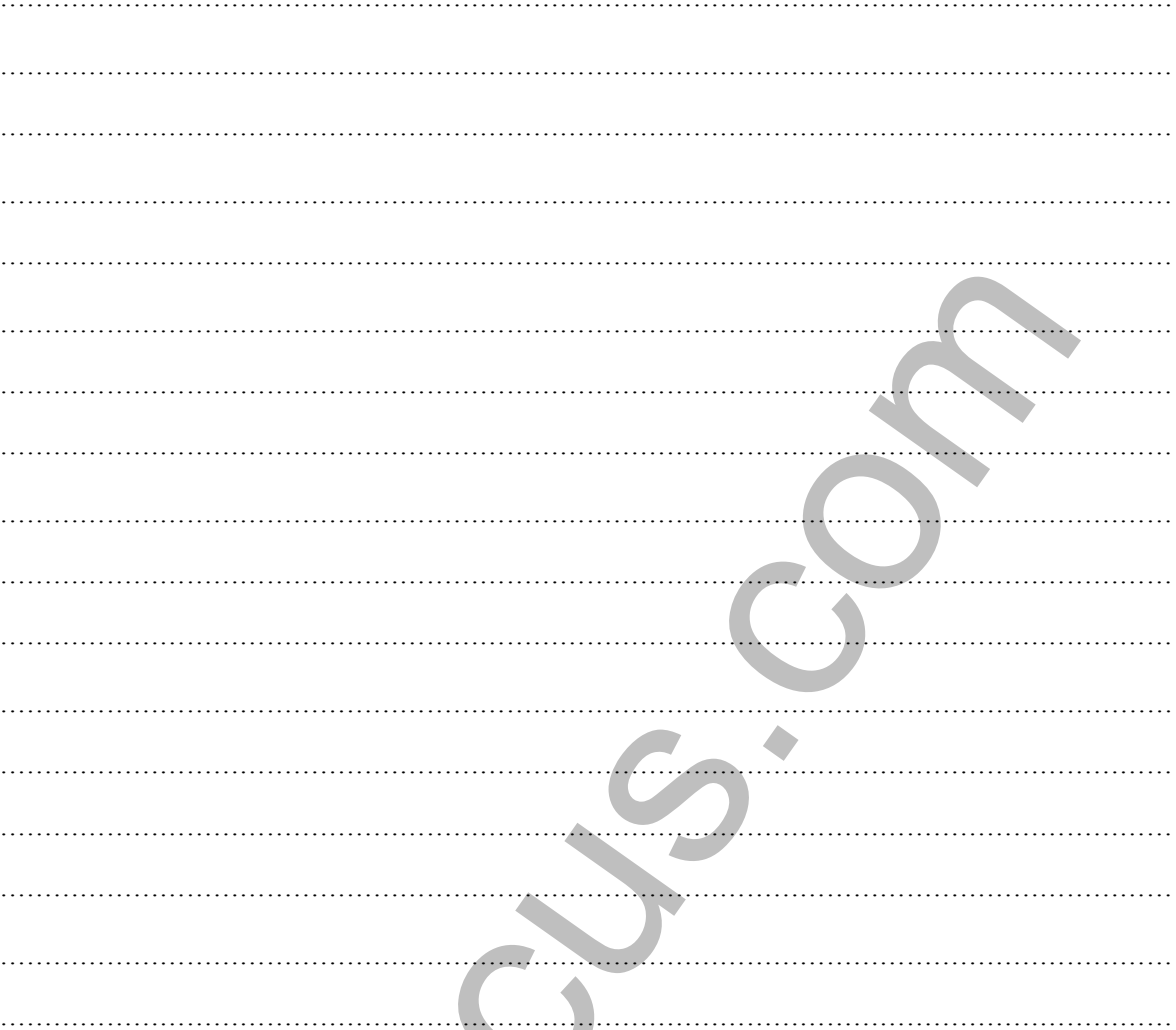


The diagram below shows an Exchange Rate for Australia



- a) What is the value of the \$A before the change in the exchange rate? 1  
 .....
- b) What supply shift or change in supply is indicated by the move from D1D1 to D2D2? 1  
 .....
- c) Identify TWO causes of the shift from D1 to D2 2  
 .....  
 .....
- d) How can the Reserve Bank intervene to limit the impact of this change in the exchange rate? 2  
 .....  
 .....  
 .....
- e) Discuss TWO economic impacts on the Australian economy of such a shift. 4  
 .....  
 .....  
 .....

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Section III

**Total marks (20)**

**Attempt either Question 25 or Question 26**

**Allow about 35 minutes for this section.**

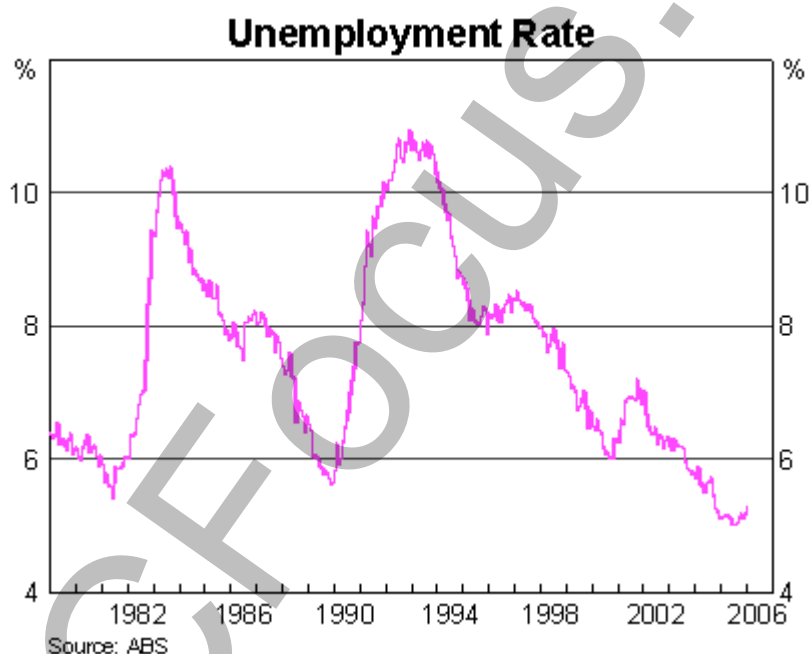
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In your answer you will be assessed on how well you:

- 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)

Examine the impact of unemployment on an economy and policy options available to the government in attempting to reduce the level of unemployment in Australia.



“Over recent years, Australia’s unemployment has been on a steady downward trend. Now below 6 per cent, it is around 23 year lows and is expected to remain low over the forecast period. Unemployment sustained around these levels marks an important breakthrough against the poor unemployment outcomes recorded from the mid-1970s.

Policy reforms have helped to create the circumstances where unemployment has fallen steadily and sustainably. The labour market is now more flexible, and the economy is less prone to the boom–bust cycles of the past as a result of product market reforms and steadier macroeconomic policy settings.”

*Budget Paper No. 1 (2005-2006)*

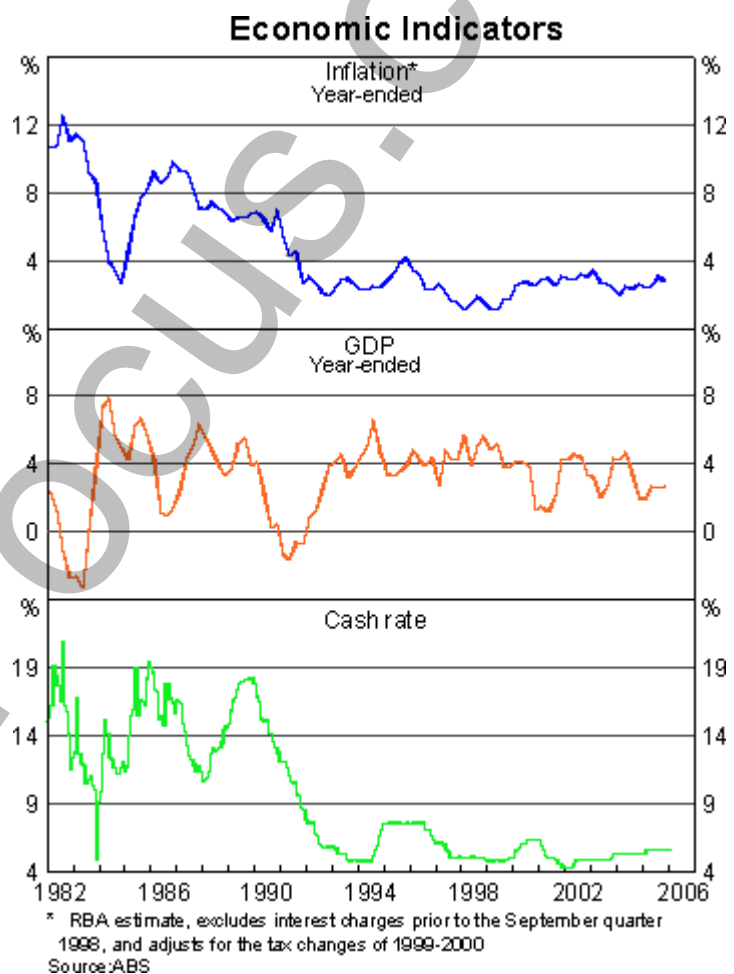
OR

**Question 26** (20 marks)

Examine the role of fiscal policy in the Federal government's policy mix in maintaining economic growth and economic stability in the Australian economy.

“The primary objective of the medium-term fiscal strategy is to maintain budget balance, on average, over the course of the economic cycle. This helps deliver macroeconomic stability, encourages private investment in a low interest rate environment, entrenches low public debt and ensures that, over time, the current account continues to reflect private, profit driven, saving and investment decisions.”

Budget Papers,  
2006-07.



**Section IV**

**Total marks (20)**

**Attempt either Question 27 or Question 28**

**Allow about 35 minutes for this section**

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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 how changes in the global economy have affected Australia's external stability.

**OR**

**Question 28** (20 marks)

Analyse the impacts of globalisation on the economic performance and standard of living in any domestic economy.

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# ANSWERS AND GUIDELINES

## Multiple choice

1.	D	11.	C
2.	D	12.	C
3.	C	13.	C
4.	A	14.	B
5.	A	15.	C
6.	B	16.	A
7.	B	17.	A
8.	C	18.	D
9.	B	19.	A
10.	A	20.	A

21 (10 marks)

- a) What is inflation? **A sustained increase in prices over time**  
 b) How is it measured? **Inflation rate =  $\frac{\text{Current Inflation Rate} - \text{Previous Inflation Rate}}{\text{Previous Inflation Rate}}$**

$$= \frac{\text{CPI current} - \text{CPI previous}}{\text{CPI previous}}$$

- d) Identify the trend of Australia's inflation rate since deregulation in the 1980's of Australia's financial markets. **The general trend has been falling with a surge in the late 80's . An increase in 2000 due to the GST**  
 e) Briefly explain TWO causes of inflation – **cost push, demand pull, imported, inflationary expectation – any two with explanation**  
 f) Discuss TWO impacts of long term low inflation on the Australian economy.  
 Some examples **-allows higher economic growth to be sustained because of its impact on investment and savings**  
**-restores business I and the incentive to I in productive assets rather than speculative I**  
**-allows for increase in international competitiveness**  
**-positive impact on distribution of Y**  
**-reduces wage price spiral**

22 (10 marks)

- a) What is micro economic reform? **-action taken by Govt to improve resource allocation in factor markets in order to maximise output from scarce resources and promote structural change**  
 b) How does micro economic reform affect aggregate supply and the level of economic activity? – **moves aggregate supply to the right and this will reduce prices, increase output, increase level of eco. activity**  
 c) Outline why the Australian government adopted micro economic reform- **to restructure markets, so as to improve allocative, technical and dynamic efficiency. This will reduce costs, increase international and national competitiveness, reduce unemployment, increase standard of living and reduce inflation**  
 d) Discuss two impacts of micro economic reforms on the performance of the Australian economy.  
**-Labour market reforms via enterprise agreements - increase in productivity, reduction in the NAIRU**  
**-International competitiveness improves our balance on goods and service (increase in exports). Leads to increase in production and employment in export competing industries**

23 (10 marks)

- a) What is market failure? – **occurs because social cost are not included in the production cost of the firm, thus negatively affecting the environment**  
 b) Explain using the diagram above how this firm has helped to avoid market failure.

**The firm has internalised the social costs by including them in the production of goods and services. This increases price and reduces the consumption of limited resources.**

- c) Discuss the impact of the firm's decision in part B, on economic growth, ecological sustainable development and intergenerational equity.

**-Eco growth will decrease unless there is an increase in the efficient use of resources**

**-Eco sustainable development – this refers to the same amount of resource used and the ability to increase production**

**Inter. gen. equity – ensuring resources are available for future generations**

24 . (10 marks)

- a) What is the value of the \$A in \$US as indicated above? - **\$1US = \$0.08Aus**
- b) What supply shift or change in supply is indicated by the move from D1D1 to D2D2?  
**-contraction in supply**
- c) Identify TWO possible causes of the shift from D1 to D2  
**-reduced demand for Aust dollars**  
**-reduction in demand for Aust**  
**-speculation – Aust is believed to fall**
- d) How can the RBA intervene to limit the impact of this change in the exchange rate  
**-increase interest rates**  
**-buy Australian dollars**
- e) Discuss TWO economic impacts on Australian exports of such a shift.  
**-will increase demand for X**  
**-import inflation**  
**-improvement in international competitiveness .....Some explanation of any two impacts**

**Question 25.**

Examine the current state of external stability in Australia and its possible impact on future growth in the Australian economy.

**MARKING GUIDELINES**

<b>Criteria</b>	<b>Marks</b>
<ul style="list-style-type: none"> <li>▪ Demonstrates a clear and concise understanding of the issues relating to the balance of payments and the current state of external stability in Australia, and the impact on future growth in the Australian economy</li> <li>▪ Integrates appropriate economic terms, relevant concepts, relationships and theory</li> <li>▪ Synthesises own information with the information provided to develop a sustained, logical and well-structured response</li> </ul>	17-20
<ul style="list-style-type: none"> <li>▪ Demonstrates a clear and concise understanding of the issues relating to the balance of payments and the current state of external stability in Australia, and the impact on growth in the Australian economy</li> <li>▪ Consistently uses appropriate economic terms, relevant concepts, relationships and theory</li> <li>▪ Uses own information and the information provided to develop a logical and well-structured response</li> </ul>	13-16
<ul style="list-style-type: none"> <li>▪ Describes balance of payments and the current state of external stability in Australia, and the impact on growth in the Australian economy</li> <li>▪ Uses own information and the information provided to develop a coherent response</li> </ul>	9-12
<ul style="list-style-type: none"> <li>▪ Outlines some issues relating to the balance of payments and external stability in Australia. Little mention of the impact on growth in the Australian economy</li> <li>▪ of declining unemployment and provides limited information on the economic performance in the Australian economy</li> <li>▪ Uses some appropriate economic terms, concepts and relationships</li> <li>▪ Uses information to develop a generalised response</li> </ul>	5-8
<ul style="list-style-type: none"> <li>▪ Lists some issues relating to balance of payments and external stability little if any information on the growth in the Australian economy</li> <li>▪ Uses some economic terms and/or concepts</li> <li>▪ Presents a limited response</li> </ul>	1-4

**Question 26.**

Examine the current stance of Monetary Policy in maintaining economic growth and economic stability in the Australian economy.

**MARKING GUIDELINES**

<b>Criteria</b>	<b>Marks</b>
Demonstrates a clear and concise understanding of Monetary Policy and how it helps to maintain economic growth and economic stability in the Australian economy. <ul style="list-style-type: none"> <li>▪ Integrates appropriate economic terms, relevant concepts, relationships and theory</li> <li>▪ Synthesises own information with the information provided to develop a sustained, logical and well-structured response</li> </ul>	17-20
Demonstrates an understanding of the issues relating to Monetary Policy and how it helps to maintain economic growth and economic stability in the Australian economy. <ul style="list-style-type: none"> <li>▪ Consistently uses appropriate economic terms, relevant concepts, relationships and theory</li> <li>▪ Uses own information and the information provided to develop a logical and well-structured response</li> </ul>	13-16
<ul style="list-style-type: none"> <li>▪ Describes the issues relating to monetary policy and provides some relevant information as to how economic growth and economic stability has been maintained in the Australian economy.</li> <li>▪ Uses appropriate economic terms, concepts and relationships</li> <li>▪ Uses own information and the information provided to develop a coherent response</li> </ul>	9-12
<ul style="list-style-type: none"> <li>▪ Outlines issues relating to monetary policy and provides limited information as to how economic growth and economic stability has been maintained in the Australian economy. Uses some appropriate economic terms, concepts and relationships</li> <li>▪ Uses information to develop a generalised response</li> </ul>	5-8
<ul style="list-style-type: none"> <li>▪ Lists some issues relating monetary policy and provides little if any information as to how economic growth and economic stability has been maintained in the Australian economy</li> <li>▪ Uses some economic terms and/or concepts</li> <li>▪ Presents a limited response</li> </ul>	1-4

**Question 27**

Analyse the impacts of labour market reforms over the last decade and their impacts on employment and economic efficiency.

**MARKING GUIDELINES**

<b>Criteria</b>	<b>Marks</b>
Demonstrates a clear and concise understanding of labour market reforms and their impact on employment and economic efficiency. <ul style="list-style-type: none"> <li>▪ Integrates appropriate economic terms, relevant concepts, relationships and theory</li> <li>▪ Synthesises own information to develop a sustained, logical and well-structured response</li> </ul>	17-20
<ul style="list-style-type: none"> <li>▪ Demonstrates a clear and concise understanding of labour market reforms and their impact on employment and economic efficiency Consistently uses appropriate economic terms, relevant concepts, relationships and theory</li> <li>▪ Uses own information to develop a logical and well-structured response</li> </ul>	13-16
<ul style="list-style-type: none"> <li>▪ Describes the labour market and identifies some relevant information of labour market reforms on employment and economic efficiency...</li> <li>▪ Uses appropriate economic terms, concepts and relationships</li> <li>▪ Uses own information to develop a coherent response</li> </ul>	9-12
<ul style="list-style-type: none"> <li>▪ Describes the labour market and provided some limited understanding of labour market reforms and economic efficiency.</li> <li>▪ Uses some appropriate economic terms, concepts and relationships</li> <li>▪ Uses information to develop a generalised response</li> </ul>	5-8
<ul style="list-style-type: none"> <li>▪ Mentions some issues relating to the labour market and provides little if any information of labour market reforms and economic efficiency.</li> <li>▪ Uses some economic terms and/or concepts</li> <li>▪ Presents a limited response</li> </ul>	1-4

**Question 28.**

Analyse the impacts of globalisation on the economic performance and standard of living in an economy other than Australia

**MARKING GUIDELINES**

<b>Criteria</b>	<b>Marks</b>
<ul style="list-style-type: none"> <li>▪ Demonstrates a clear and concise understanding of the effects of globalisation on the economic performance and standard of living on any domestic economy. Integrates appropriate economic terms, relevant concepts, relationships and theory</li> <li>▪ Synthesises own information develop a sustained, logical and well-structured response</li> </ul>	17-20
<ul style="list-style-type: none"> <li>▪ Demonstrates an understanding of the effects of globalisation on the economic performance and standard of living on any domestic economy.</li> <li>▪ Consistently uses appropriate economic terms, relevant concepts, relationships and theory</li> <li>▪ Uses own information to develop a logical and well-structured response</li> </ul>	13-16
<ul style="list-style-type: none"> <li>▪ Describes the effects of globalisation on the economic performance and standard of living on any domestic economy.</li> <li>▪ Uses appropriate economic terms, concepts and relationships</li> <li>▪ Uses own information to develop a coherent response</li> </ul>	9-12
<ul style="list-style-type: none"> <li>▪ Outlines the effects of globalisation on the economic performance and standard of living on any domestic economy.</li> <li>▪ Uses some appropriate economic terms, concepts and relationships</li> <li>▪ Uses information to develop a generalised response</li> </ul>	5-8
<ul style="list-style-type: none"> <li>▪ Mentions some aspects of globalisation on the economic performance and standard of living on any domestic economy.</li> <li>▪ Uses some economic terms and/or concepts</li> <li>▪ Presents a limited response</li> </ul>	1-4

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**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
3. A  B  C  D
4. A  B  C  D
5. A  B  C  D
6. A  B  C  D
7. A  B  C  D
8. A  B  C  D
9. A  B  C  D
10. A  B  C  D
11. A  B  C  D
12. A  B  C  D
13. A  B  C  D
14. A  B  C  D
15. A  B  C  D
16. A  B  C  D
17. A  B  C  D
18. A  B  C  D
19. A  B  C  D
20. A  B  C  D