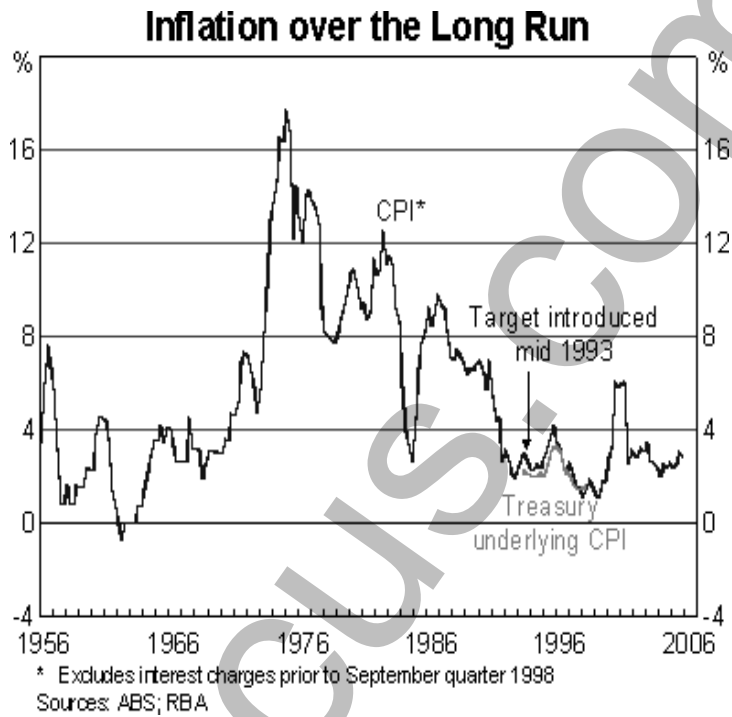


Section II
Total marks (40)
Attempt Questions 21 – 24
Allow about 1 hour and 15 minutes for this section

NAME:

Answer the questions in the spaces provided

Question 21 (10 marks)



Using the graph above and your knowledge

a) What is inflation?

1

b) How is it measured?

2

1

c) Identify the trend of Australia's inflation rate since the deregulation in the 1980's of Australia's financial markets.

2

d) Briefly explain TWO causes of inflation

4

e) Discuss TWO impacts of long term high inflation on the Australian economy

Question 22 (10 marks)

The new micro reform push

The main role of micro reform is to make it possible for the economy to grow faster in the long run.....State & Federal Governments have been resting on their oars after achieving significant reform in earlier years We now face a critical choice... to achieve an average of 4% annual GDP growth means that many reforms need to start now given the long lags between reforms and their impacts.

-Access Economics, the Speed Limit 2005 – 2025

As such, microeconomic reform is about making the economy work better for the benefit of the Australian community. *Productivity Commission*

1

a) What is micro economic reform?

2

b) How does micro economic reform affect aggregate supply?

3

c) Outline why the Australian government adopted micro economic reform policies.

d) Discuss TWO impacts of micro economic reforms on the performance of the Australian economy.

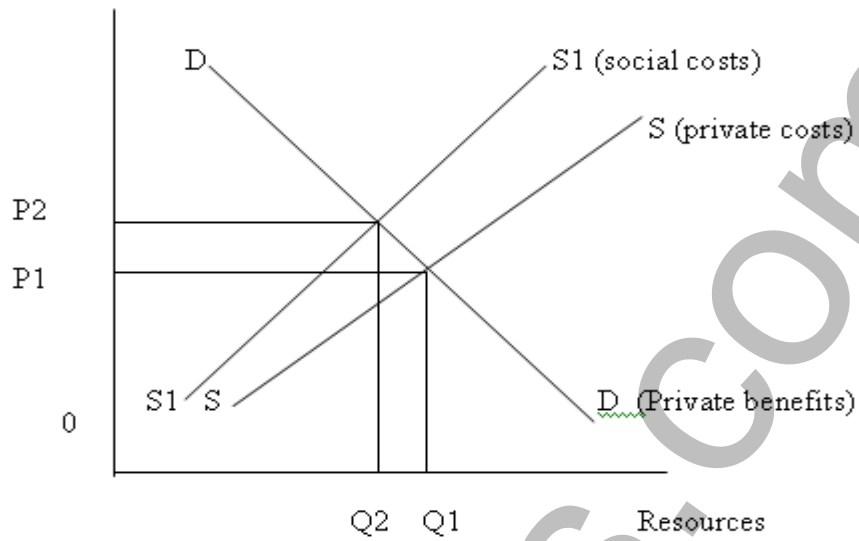
4

End of question 22

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Question 23 (10 marks)

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



a) What is market failure?

1

b) If the price paid by consumers was P1, explain using the diagram above, how market failure has occurred.

3

c) Discuss the impact of market failure on economic growth, ecological sustainable development and intergenerational equity.

6

Continued next page

End of question 23

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Question 24 (10 marks)

Fiscal strategy

The Government's medium-term fiscal strategy is an integral part of the economic management framework designed to deliver sustainable economic growth, rising employment and higher living standards.

A medium-term approach to fiscal policy

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.

[http://www.budget.gov.au/2006-07/budget paper 1](http://www.budget.gov.au/2006-07/budget%20paper%201)

a) Define fiscal policy.

1

b) Outline how automatic stabilisers play a 'countercyclical role' in the economy.

2

c) Explain the role of fiscal policy in achieving macroeconomic stability for the government.

3

d) Discuss the effects of the 2006 - 07 budget fiscal policy on income distribution and economic activity.

4

End of question 24

END OF SECTION II