

BEVERLY HILLS GIRLS' HIGH SCHOOL

ECONOMICS 2 UNIT

2007

TRIAL HIGHER SCHOOL CERTIFICATE

FORMAT of PAPER

Total marks 100

Section I Multiple Choice

Total marks (20)

- Attempt Questions 1-20
- Answer on the ANSWER SHEET provided
- Allow about 35 minutes for this section

Section II Short Answers

Total marks (40)

- Attempt Questions 21-24
- Allow about 1 hour & 15 minutes for this section

Section III Extended Response

Total marks (20)

- Attempt **either** Question 25 or Question 26
- Allow about 35 minutes for this section.

Section III Extended Response

Total marks (20)

- Attempt **either** Question 27 or Question 28
- Allow about 35 minutes for this section.

NAME: _____

General Instructions

- Reading time- 5 minutes
- Working time- 3 hours
- Board-approved calculators may be used
- Write using blue or black pen
- Write using black or blue pen
- Draw diagrams clearly
- Write your name at the top of every page.

**The complete examination booklet
must be handed in.**

**Good Luck....
Mr T. Semenec...August 2007**

Good Luck.....Mr Semenec.....August 2007

Section 1 Total marks (20)

Attempt Questions 1-20.....Allow about 35 minutes for this section

Use the multiple-choice answer sheet.

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

1. Which of the following would most likely improve Australia's international competitiveness?
 - (A) An appreciation of the Australian dollar
 - (B) A larger budget deficit
 - (C) Reduced transport costs in Australia
 - (D) Increased interest rates

2. What type of investment occurs when a firm invests in a foreign subsidiary?
 - (A) Portfolio investment
 - (B) Foreign exchange dealings
 - (C) Speculative investment
 - (D) Direct investment

3. Which of the following is a possible cause of cost inflation?
 - (A) Labour skill shortages
 - (B) An increase in interest rates
 - (C) Changes to the Industrial Relations Commission
 - (D) A rise in the level of consumption spending

Question 4 refers to the information below:

Number of 15-65 year old	10,000,000
Number Employed	5,000,000
Number Unemployed	500,000

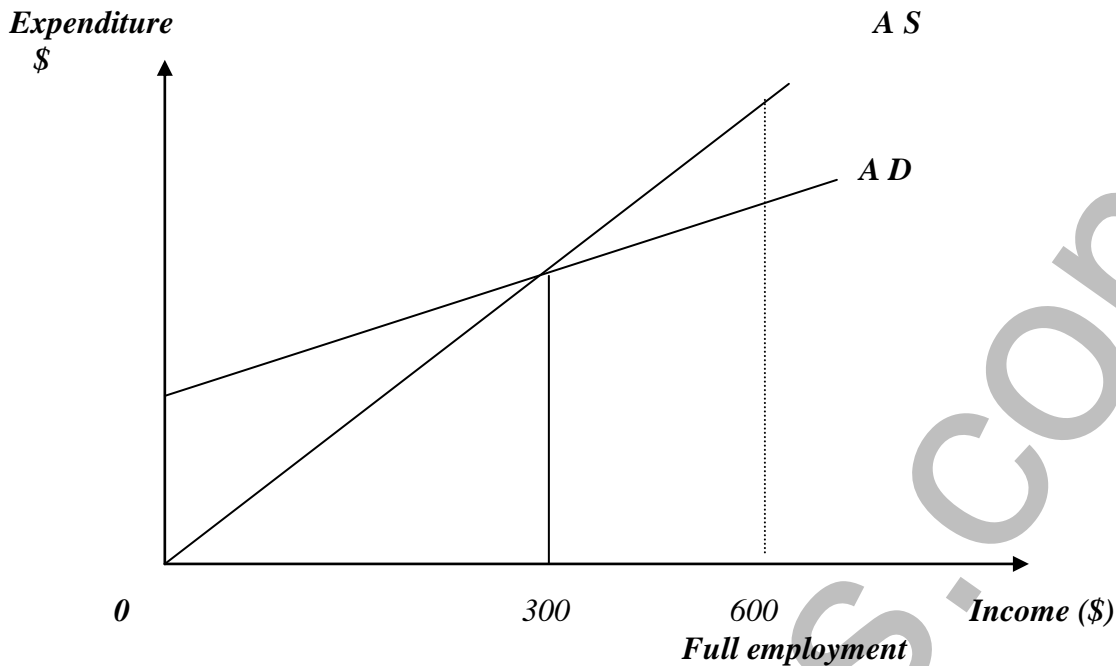
4. What is the participation rate?
 - (A) 55%
 - (B) 50%
 - (C) 10%
 - (D) 9%

5. 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
 - (D) North Atlantic Treaty Organisation (NATO)

6. What is purchasing power parity used for?
 - (A) To compare the value of GDP between countries
 - (B) To compare the value of wealth between countries
 - (C) To measure the value of world trade
 - (D) To measure the value of world financial transactions

(3)

Question 7 is based on the following information



7. 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

Question 8 is based on the Balance of Payments data in the following table

Balance of Payments	(\$m)
Exports	62,317
Imports	61,254
Net Services	-5,842
Net Income	-21,536
Net Transfers	3,011

8. What would be the Balance on the Capital and Financial Account be under a free floating exchange rate?
- (A) \$23,304 m surplus
 - (B) \$23,304 m deficit
 - (C) \$27,378 m surplus
 - (D) \$27,378 m deficit
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 nations
 - (D) Increases in the growth rates of developing nations

(4)

10. What would be the effect of persistent current account deficits under a floating exchange rate?
- (A) A currency depreciation and rising foreign debt
 - (B) A currency depreciation and falling foreign debt
 - (C) A currency appreciation and rising foreign debt
 - (D) A currency appreciation and falling foreign debt
11. 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
12. Which of the following is a reason for market failure in environmental management?
- (A) Environmental resources are renewable and therefore difficult to cost
 - (B) The price mechanism does not always take into account social cost and benefits of production
 - (C) The market can only take into account public goods and services and not private goods and services
 - (D) Well-defined property rights do not protect individual owners of environmental resources
13. Other things being equal, which one of the following government policies is most likely to increase the inequality of income in the Australian economy?
- (A) A more progressive income tax
 - (B) Increased rebates to lower income earners
 - (C) A reduction in the cost of government services
 - (D) A heavier reliance on regressive taxation
14. If over the next twelve months the labour force were to grow by 3% and output per person employed were to grow by 1% what would be the minimum GDP growth rate necessary to prevent the unemployment rate from falling?
- (A) 2%
 - (B) 3%
 - (C) 4%
 - (D) 5%

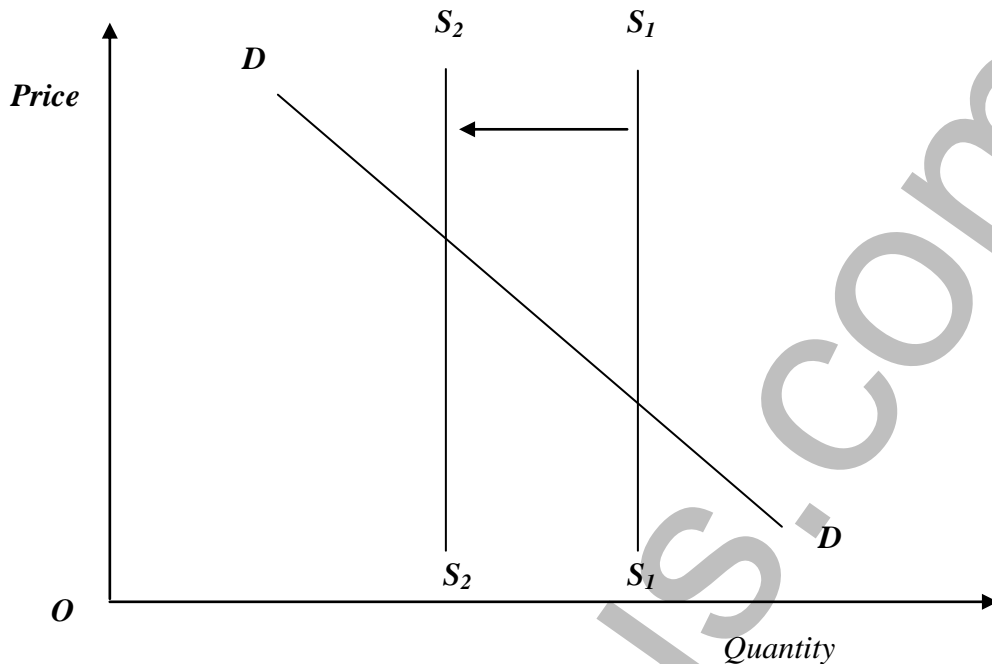
Question 15 is based on the following Terms of Trade data:

	Export Price Index	Import Price Index
Year 1	100	100
Year 2	120	110
Year 3	120	125

15. What is the Terms of Trade Index in Year 3?
- (A) 86
 - (B) 96
 - (C) 102
 - (D) 118

Question 16 refers to the diagram below:

The diagram shows the impact of a change in the quota for imported cars.

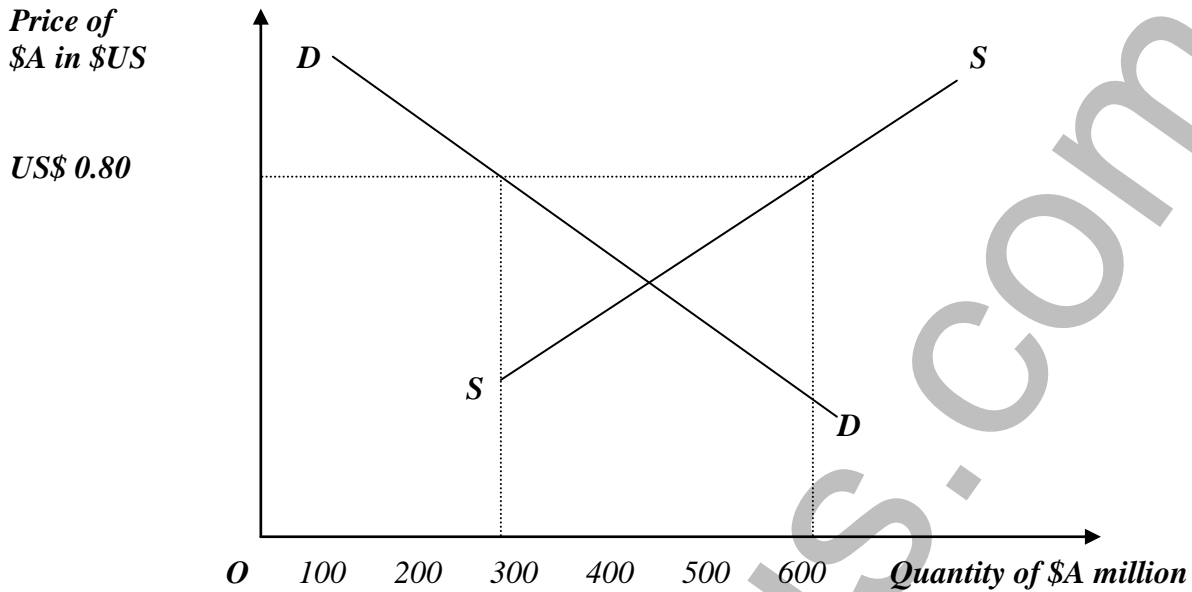


16. According to the diagram, what are the effects of a movement in the supply curve from S_1 to S_2 ?
- (A) The quota has increased and local car producers face more competition
 (B) The quota has increased and local car producers face less competition
 (C) The quota has decreased and local car producers face more competition
 (D) The quota has decreased and local car producers face less competition
17. As a percentage of Gross Domestic Product, which of the following is a measure of external stability?
- (A) Capital inflow
 (B) The budget deficit
 (C) Household savings ratio
 (D) The current account deficit
18. A foreign competitor is selling imported goods at below cost, forcing a domestic business out of the market. On what economic grounds should the domestic business argue for protection?
- (A) The infant industry argument
 (B) The self-sufficiency argument
 (C) The anti-dumping argument
 (D) The domestic employment argument
19. Which of the following will tend to increase the level of the natural rate of unemployment (NAIRU)?
- (A) A rise in long-term unemployment
 (B) A decline in seasonal unemployment
 (C) A rise in cyclical unemployment
 (D) A decline in structural unemployment

(6)

Question 20 refers to the diagram below

The diagram shows an Exchange Rate for Australia.



20. What would the Reserve Bank do if it wished to raise the exchange rate to the level that $\$A1.00 = \$US 0.80$?
- (A) It must buy \$150 million Australian
 - (B) It must sell \$150 million Australian
 - (C) It must buy \$300 million Australian
 - (D) It must sell \$300 million Australian

SECTION 11

(40 Marks)

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)

Marks

The table below gives selected data on the components of Aggregate Demand.

INCOME (\$)	CONSUMPTION (\$)	SAVINGS (\$)
100	80	20
200	160	40
300	240	60
400	320	80

(a) Define the term 'Marginal Propensity to Consume'. (1 Mark)

(b) Using the table above calculate the multiplier (show working). (1 Mark)

(c) Calculate the growth in GDP as a result of an injection of \$250 (1 mark)

(d) Define the term economic growth. (1 mark)

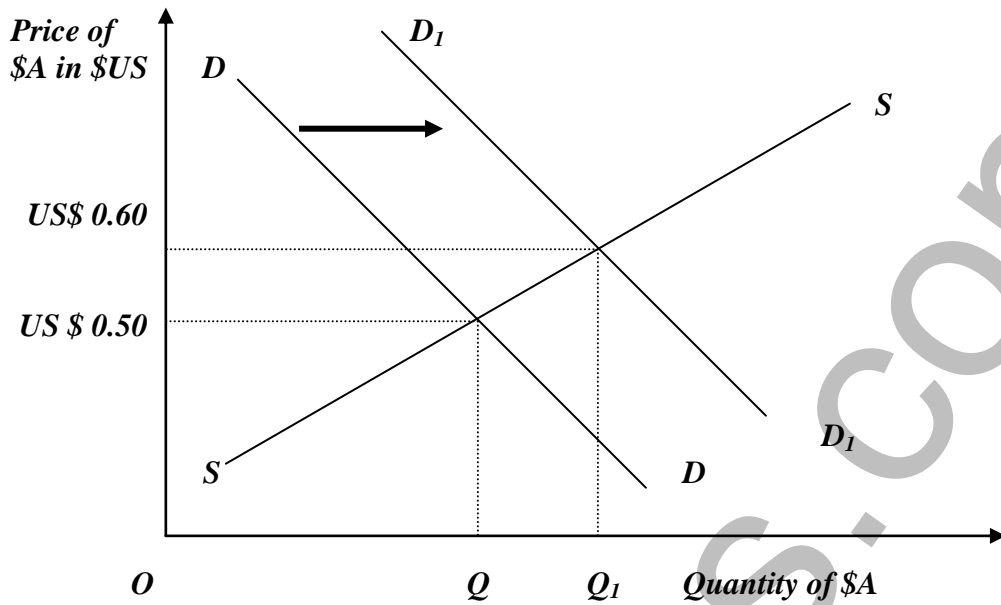
(8)

- (e) *Explain the benefits of economic growth to business firms and government.* (4 Marks)

- (f) *Outline the impact of economic growth on ecologically sustainable development.* (2 Marks)

Question 22 (10 Marks)

The diagram below shows the demand for and supply of Australian dollars(\$A) in terms of United States dollars (\$US). Both countries have flexible exchange rates.



(a) Define the term 'exchange rate'. (1 mark)

(b) State the economic term given to the movement of the exchange rate of the \$A from \$US 0.50 to \$US 0.60. (1 mark)

(c) Outline **TWO** causes of an increase in demand for \$A. (2 marks)

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(d) Explain how Reserve Bank operations in the foreign exchange market and the domestic money Market can influence the value of the \$A. (2 marks)

(10)

(e) Discuss **TWO** economic benefits to Australia of an appreciation of the \$A.. (4 marks)

- _____

- _____

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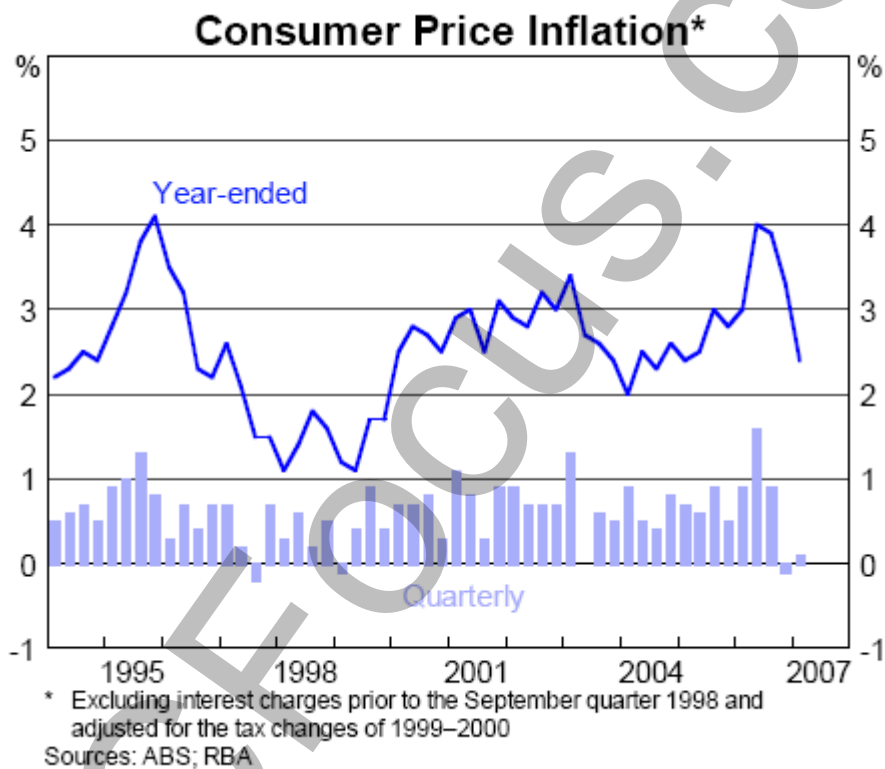
Question 23 (10 marks)

Use the following information to assist in answering the questions that follow.

High CPI ensures rate rise

Underlying inflation jumped sharply and dangerously in the June 2007 quarter. The Reserve Bank has to and will lift the official interest rate.....that 0.9 per cent is an annualized rate of 3.6 per centdisturbingly above the top of the RBA's 2-3 per cent inflation target....

Terry McCrann D.T. July 26 2007



(a) Define the term 'inflation'. (1 mark)

(b) How is it measured? (1 mark)

(c) Outline **TWO** causes of inflation.

(2 marks)

- _____

- _____

(d) Outline **TWO** negative effects of inflation on an economy.

(2 marks)

- _____

- _____

(e) Explain **TWO** government economic policies that could reduce the rate of inflation in an economy.

(2 marks)

- _____

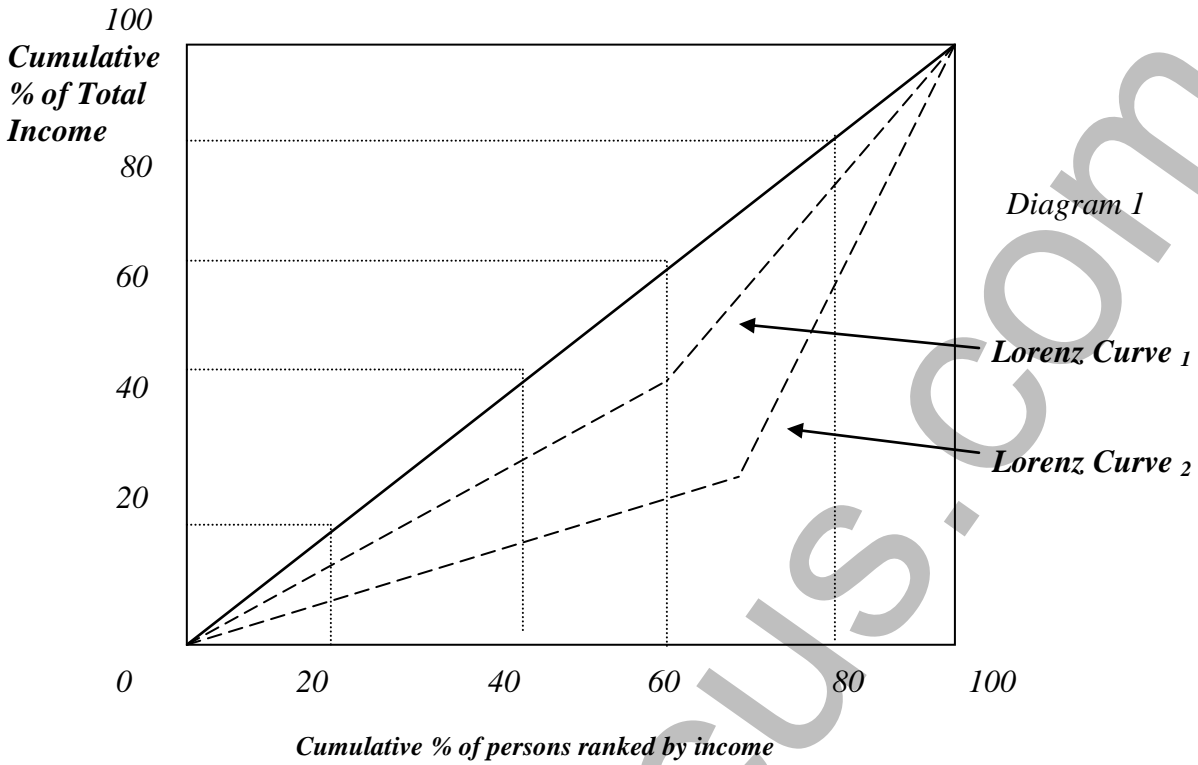
- _____

(f) Analyse the possible consequences on the Australian economy of a rise in interest rates. (2 marks)

Question 24

(10 marks)

The following diagram shows the Lorenz curve for average weekly earnings in a nation.



(a) What is a 'Lorenz Curve'? (1 mark)

(b) What does the 'Gini Co-efficient' measure? (1 mark)

(c) In the diagram, which Lorenz Curve (LC₁ or LC₂) has the greater Gini Co-efficient? (1 mark)

(d) Distinguish between the terms 'income' and 'wealth'. (2 marks)

(e) Outline **TWO** reasons that could explain inequality of income within a nation. (2 marks)

- _____

- _____

(f) Analyse the economic and social costs that arise from the inequality of income distribution within a nation. (2 marks)

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(15)

Section 111

Total Marks (20)

Attempt either Question 25 or Question 26

Allow about 35 minutes for this question.

Answer the question on a new writing page

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 possible effects of lower rates of unemployment, inflation and sustained economic growth on Australia's economic performance and environmental quality.

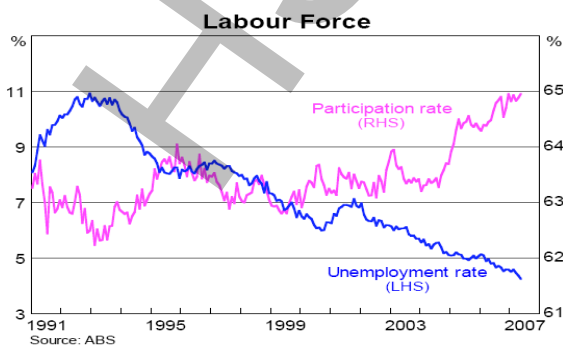
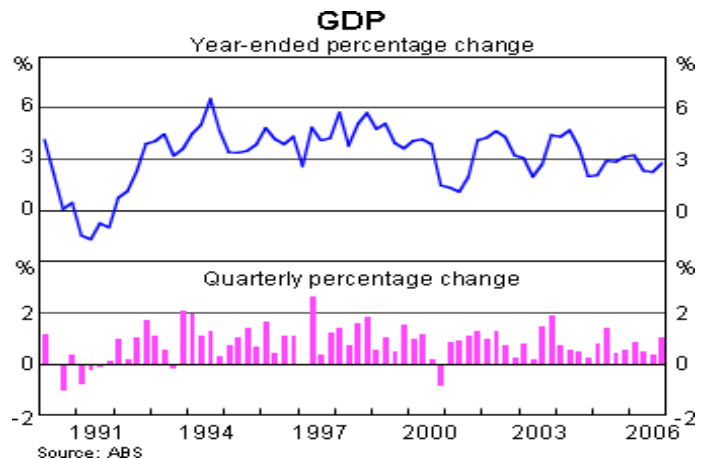
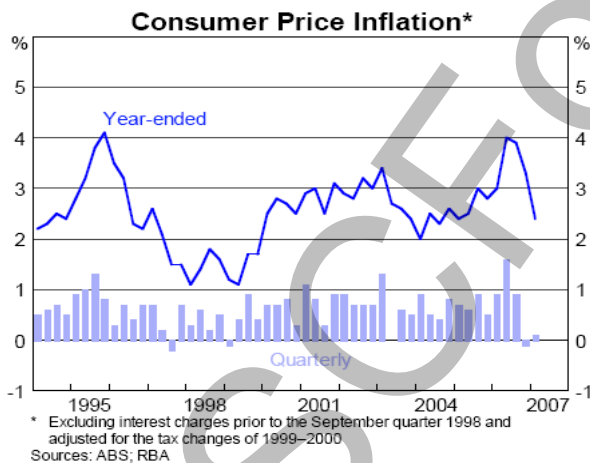
...the more serious risk to the inflation outlook is more probably down the track – and it is the result of the tightness of the labour market.

Unemployment is at its lowest in 30 years and below NAIUR. This increases the risk that wages will accelerate.

Allan Mitchell, Financial Review, Feb. 2007

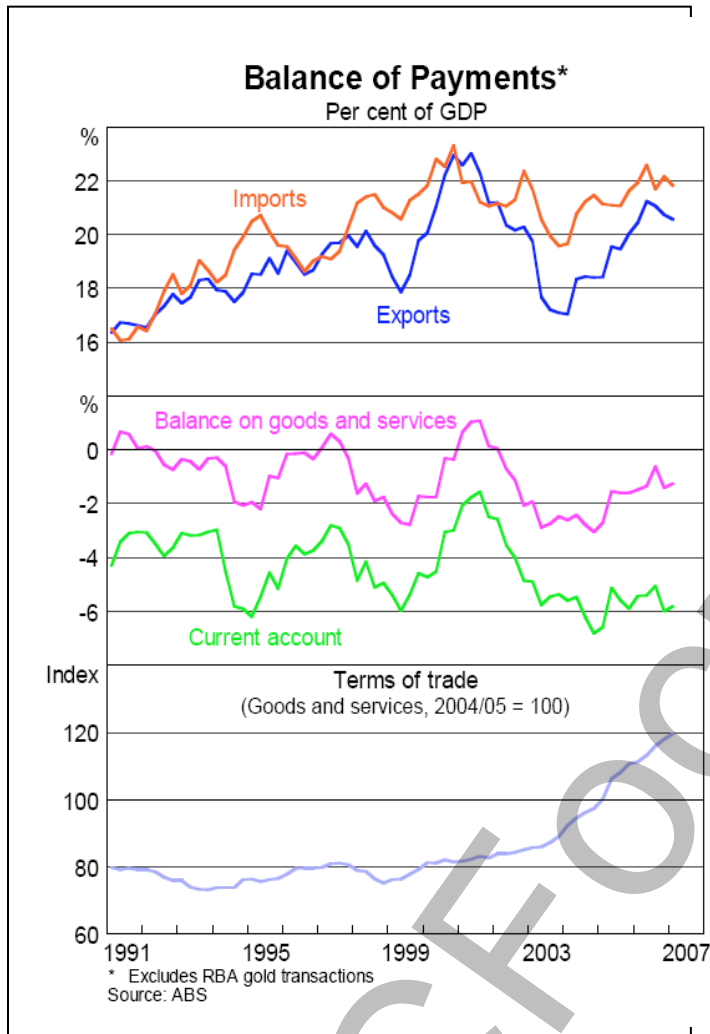
Because Australia is such a big exporter of fossil fuels the economic risks in achieving a big reduction in emissions could involve significantly higher costs to consumers and losses of economic growth and jobs.

Ross Gittins, SMH, August 2006



Question 26 (20 Marks)

Analyse the causes of Australia's on-going current account deficit and its impact on external stability. Discuss policy options the Australian government can use to achieve external stability.



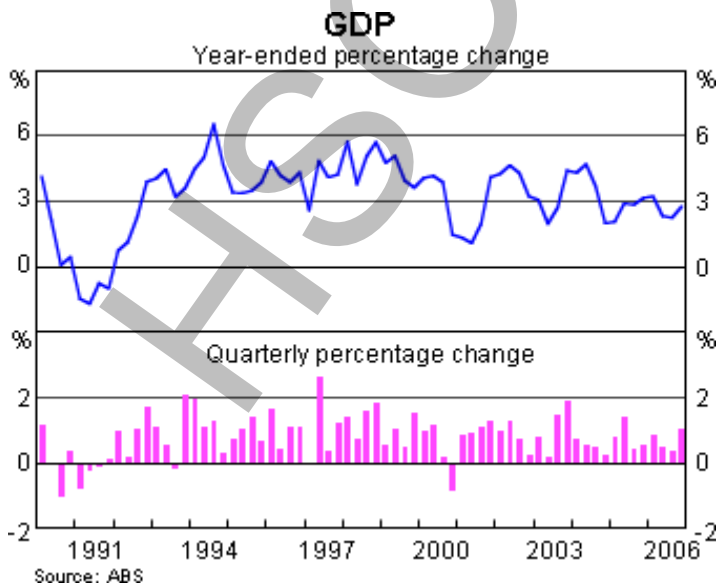
Current Account Balance..
Treasury Paper 2007-08 Budget

The current account deficit (CAD) is expected to widen to 6 per cent of GDP in 2007-08. It is anticipated that the trade deficit will widen, with import volumes outpacing export volumes and an expected fall in export prices.

The past two years have seen a significant rise in the net income deficit (NID) as a share of GDP....as strong mining profits, coupled with a relatively high degree of foreign ownership in the mining sector, have underpinned a rapid increase in equity income accruing to the rest of the world.

The Australian economy has continued to benefit from strong global commodity prices. Australia's terms of trade have increased by more than 30 per cent over the past three years....This has been an important source of growth in incomes and spending.

Source: RBA



(17)

Section IV

Total Marks (20)

Attempt either Question 27 or Question 28

Allow about 35 minutes for this section.

Answer the question on a new writing page.

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*
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Question 27 (20 Marks)

Examine the reasons for changes in the composition and direction of Australia's trade, and critically analyse the impacts of changes in protection policies on the Australian economy.

OR

Question 28 (20 Marks)

Analyse the impacts of globalisation and protection reforms on the economic performance and development of any domestic economy other than Australia.