

# Economics

## General Instructions

- Reading time – 5 minutes
- Working time – 3 hours
- Write using black or blue pen
- Board approved calculators may be used
- Write your student number and/or name at the top of every page

## Total marks - 100

### Section I – Pages 2 – 8

Total marks (20)

Attempt Questions 1 – 20

Allow about 35 minutes for this section

### Section II – Pages 9 – 16

Total marks (40)

Attempt Questions 21 - 24

Allow about 1 hour and 15 minutes for this section

### Section III – Pages 17 – 18

Total marks (20)

Attempt either Question 25 or Question 26

Allow about 35 minutes for this section

### Section IV – Page 19

Total marks (20)

Attempt EITHER Question 27 or Question 28

Allow about 35 minutes for this section

**This paper MUST NOT be removed from the examination room**

STUDENT NUMBER/NAME: .....

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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 and indicate your choice with a cross (X) in the appropriate space on the grid below.

	A	B	C	D
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1. Which of the following economic indicators would be characteristic of an economy in a recession?
- (A) High employment, high interest rates and high consumption expenditure
  - (B) High unemployment, high investment levels and high consumption expenditure
  - (C) High unemployment, falling consumption expenditure and increasing tax revenue
  - (D) High unemployment, falling imports and falling consumption expenditure

2. The following table shows selected data for an economy in equilibrium.

<b>Injection/Leakage</b>	<b>\$ millions</b>
Exports	90
Taxation	50
Imports	100
Savings	
Investment	200
Government Expenditure	100

What is the level of saving for this economy?

- (A) \$240m
  - (B) \$180m
  - (C) \$200m
  - (D) \$290m
3. What is the likely impact of a depreciation of the Australian dollar?
- (A) Australian exports are more expensive and capital inflow is discouraged.
  - (B) Australia imports are cheaper and capital inflow is encouraged.
  - (C) Australian exports are cheaper and capital inflow is encouraged.
  - (D) Australian imports are more expensive and capital inflow is discouraged.
4. Which of the following would be the most appropriate stance for monetary policy during a period of declining economic activity?
- (A) A reduction in the cash rate and an easing of monetary policy
  - (B) Reducing rates of income tax
  - (C) Increasing payments to social security recipients
  - (D) The Reserve Bank of Australia would decrease the money supply by buying additional government securities

5. The following table shows selected information for the balance of payments for a country with a floating exchange rate.

Category	Amount (\$ millions)
Net Services	2.50
Net Income	-50.00
Net Current Transfers	-0.35
Capital and Financial Accounts	67.00

What is the goods balance on the current account?

- (A) -\$19.15 million  
 (B) -\$14.15 million  
 (C) \$52.85 million  
 (D) \$119.85 million
6. What are three common features of developing countries?
- (A) Low per capita incomes, high population growth and low levels of foreign debt.  
 (B) High population growth, high levels of foreign debt and high levels of capital accumulation.  
 (C) Low levels of domestic savings, low levels of technology and high levels of foreign debt.  
 (D) Low levels of savings, low per capita incomes and high levels of capital accumulation.
7. Which of the following best describes the main role of the World Bank?
- (A) To promote trade between nations  
 (B) To provide finance and technical assistance to developing countries  
 (C) To lend funds to countries with balance of payments difficulties  
 (D) To facilitate the global transfer of foreign exchange
8. What is a non inflationary method of financing a federal budget deficit?
- (A) Increasing the level of income tax  
 (B) Reducing expenditure on social services  
 (C) Selling government securities to the Reserve Bank  
 (D) Selling new government securities in domestic financial markets

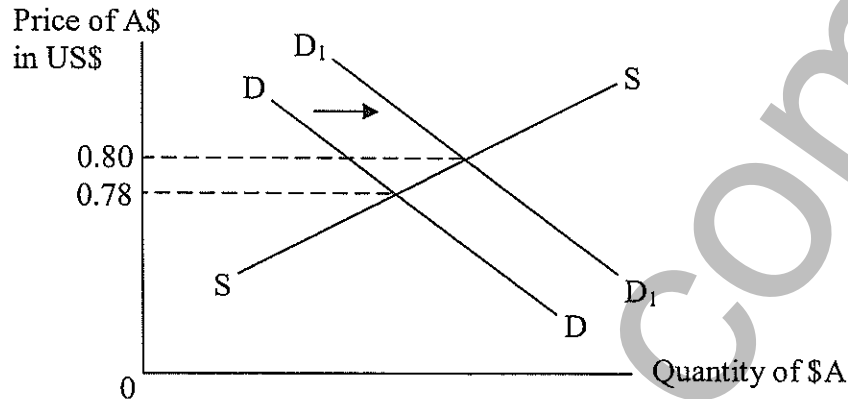
9. The following table shows data for income and consumption in a closed economy.

Disposable Income \$m	Consumption \$m
50	50
100	90
150	130
200	170
250	210

What is the value of the marginal propensity to consume (MPC) and the simple multiplier?

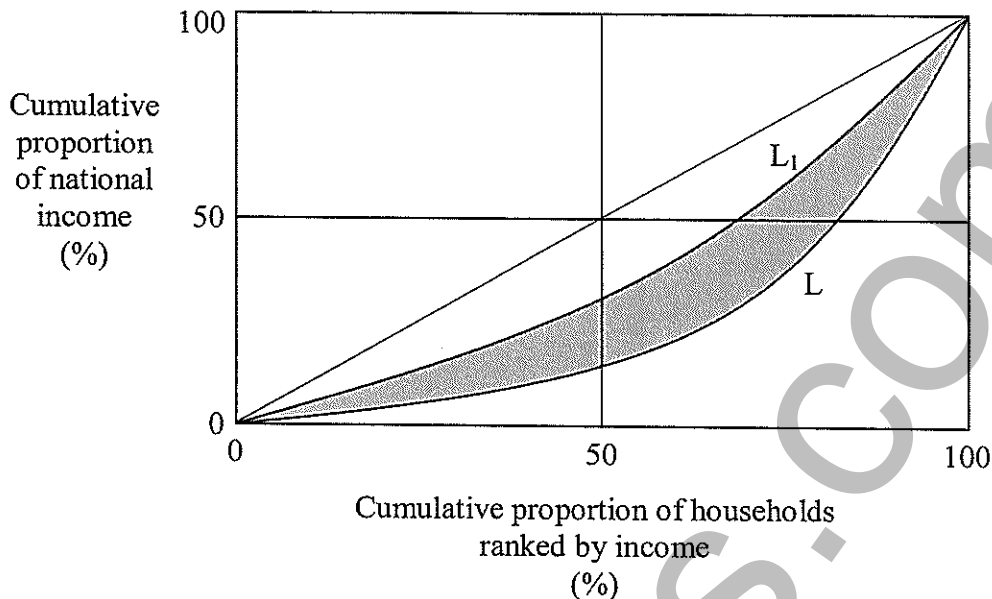
- (A) The MPC is 0.1 and the multiplier is 10.  
 (B) The MPC is 0.6 and the multiplier is 2.5.  
 (C) The MPC is 0.8 and the multiplier is 5.  
 (D) The MPC is 0.9 and the multiplier is 10.
10. Which of the following is an example of microeconomic reform?
- (A) The Australian government guaranteeing bank deposits.  
 (B) The introduction of a carbon trading emissions scheme.  
 (C) Government fiscal stimulus packages.  
 (D) Selling government bonds to fund a budget deficit.
11. What would be the likely effect of a decrease in the highest marginal rate of taxation?
- (A) An increase in government revenue  
 (B) An increase in income inequality  
 (C) A decrease in real wages  
 (D) A decrease in consumption expenditure
12. Which of the following will be reduced as a result of lower rates of inflation?
- (A) The level of investment  
 (B) The level of real income  
 (C) Uncertainty in the economy  
 (D) The purchasing power of money

13. The diagram below shows the exchange rate for the Australian dollar in terms of US dollars.



- Which of the following could have caused the increase in value of the Australian dollar?
- (A) An increase in US interest rates  
 (B) A decrease in Australian interest rates  
 (C) A decrease in commodity imports  
 (D) An increase in foreign investment in Australia
14. Which of the following is NOT an economic argument used to justify tariff protection?
- (A) The protection of defence industries  
 (B) The protection of infant industries  
 (C) Protection against the dumping of cheap imports  
 (D) The protection of employment during a recession
15. Which are the characteristics of a public good?
- (A) Excludable and non-rival in consumption.  
 (B) Rival in consumption and non-excludable.  
 (C) Non-rival in consumption and non-excludable.  
 (D) Rival in consumption and excludable.
16. Which of the following would both cause the Australian Government's budget to go into deficit?
- (A) Higher interest rates and increased government expenditure  
 (B) Lower interest rates and decreased government expenditure  
 (C) Lower taxation revenue and reduced government expenditure  
 (D) Lower taxation revenue and increased government expenditure

17. The diagram shows the movement in the Lorenz curve in an economy from L to  $L_1$ .



What does the shaded area between the Lorenz curves L and  $L_1$  represent?

- (A) The level of income inequality in the economy  
 (B) The Gini co-efficient  
 (C) The reduction in income inequality in the economy  
 (D) The increase in income inequality in the economy
18. Which type of unemployment is best reduced by the use of expansionary monetary and fiscal policies?
- (A) Frictional unemployment  
 (B) Cyclical unemployment  
 (C) Structural unemployment  
 (D) Seasonal unemployment
19. The table below shows selected data for a hypothetical economy.

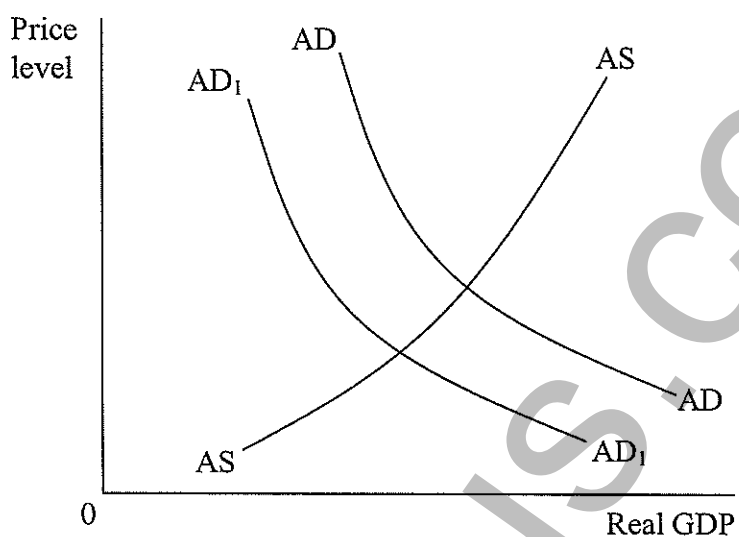
Year	Export price index	Import price index
1	100	100
2	110	88

Which statement is correct for this economy?

- (A) The terms of trade are 125 in Year 2 and have improved from Year 1  
 (B) The terms of trade are 70.4 in Year 2 and have deteriorated from Year 1  
 (C) The terms of trade are 100 in Year 2 and have not changed from Year 1  
 (D) The terms of trade are 110 in Year 2 and have improved from Year 1



20. The diagram shows the aggregate demand and aggregate supply curves for an economy.



Which of the following factors could have caused the shift in the aggregate demand curve from AD to AD<sub>1</sub>?

- (A) Lower official interest rates
- (B) An increase in the size of the government's budget deficit
- (C) An increase in government spending on infrastructure
- (D) A fall in the demand for exports

**End of Section II**

**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.

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**Question 21 (10 marks)**

**Marks**

The following extract refers to the Australian economy in 2008-09.

“To support the economy through the global recession, the Government’s fiscal stimulus programme started with income support to households and then moved to increased spending on infrastructure in the 2009 budget which will support aggregate demand and employment. The Reserve Bank has also cut official interest rates by 4.25% resulting in the lowest mortgage interest rates since the 1960s.”

Source: Commonwealth of Australia (2009), Budget Paper No. 1

(a) Define the terms *full employment* and *price stability*.

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(b) Explain how governments are restricted in the simultaneous achievement of full employment and price stability.

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**Question 21 continues on the next page**

Question 21 (continued)

**Marks**

- (c) Explain TWO effects of an easing in monetary and fiscal policies on the level of economic activity in Australia.

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- (d) Explain how global and domestic influences can limit the effectiveness of government economic policy in Australia.

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**End of Question 21**

**Question 22** (10 marks)**Marks**

The table gives selected data for an economy.

Year	Consumer Price Index
1	141.2
2	144.8
3	150.4

(a) Define the term *inflation*.

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(b) Calculate the rate of inflation from Year 2 to Year 3.

**1**

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(c) Outline TWO possible causes of inflation.

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

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**Question 22 continues on the next page**

Question 22 (continued)

Marks

- (e) Explain ONE macroeconomic policy used to reduce inflation in the short run and ONE microeconomic policy to reduce inflation in the long run.

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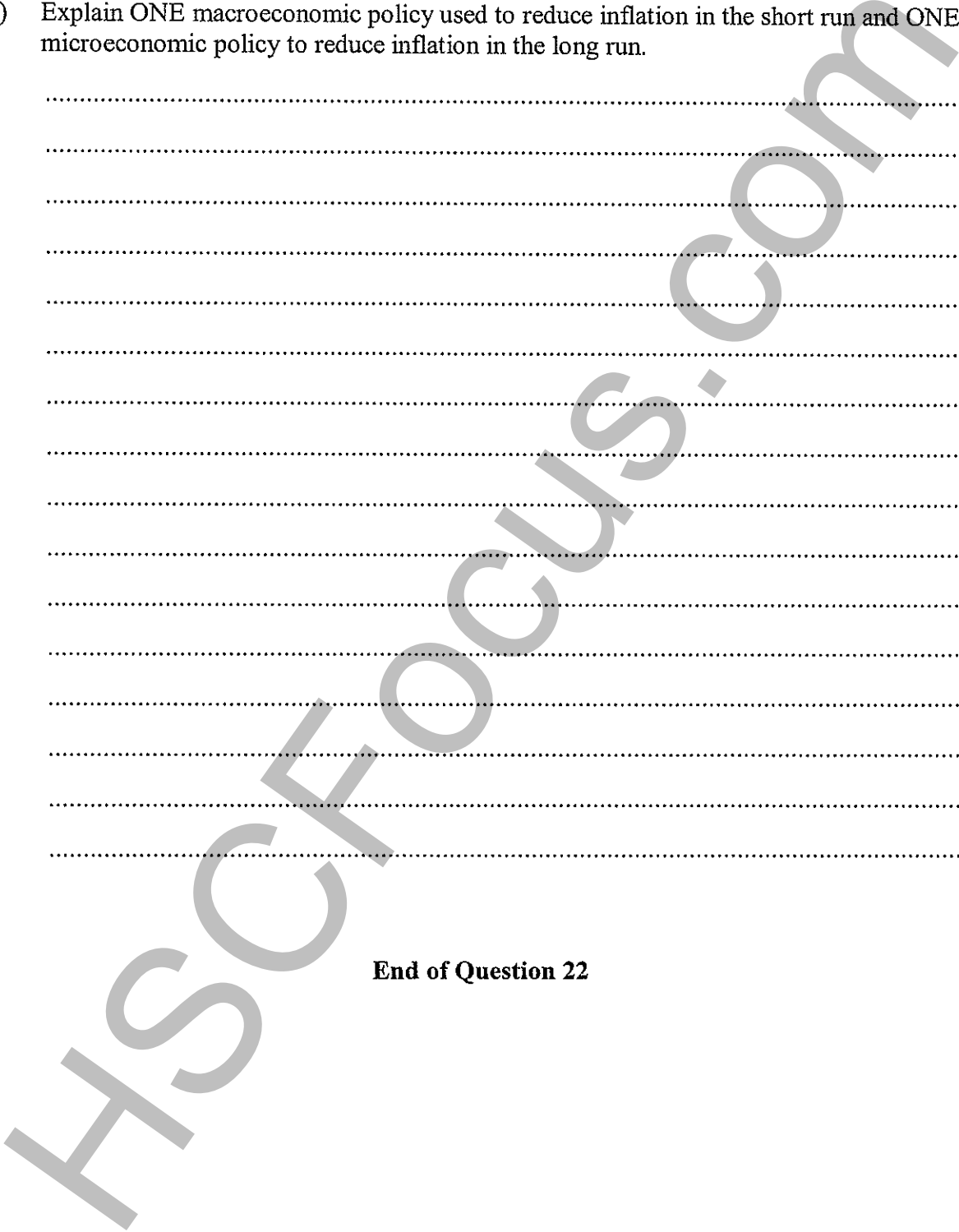
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End of Question 22

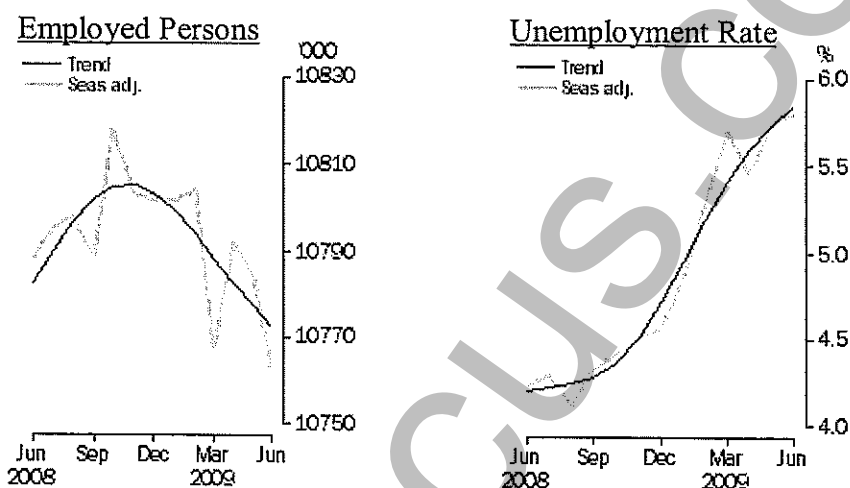


**Question 23** (10 marks)

**Marks**

The following table and graphs show selected data and trends for the Australian labour force in 2008-09.

	June 2008	June 2008 to June 2009
Employed persons ('000)	10,772.5	0.1%
Unemployed persons ('000)	668.4	41.2%
Unemployment rate (%)	5.8	1.6pts
Participation rate (%)	65.4	-0.1pts



Source: ABS (2009), Labour Force Australia, June.

- (a) State the formula for the labour force and calculate the size of the labour force in June 2009.

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- (b) Explain what is meant by the *participation rate* and state the participation rate for June 2009.

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**Question 23 continues on the next page**



**Question 24 (10 marks)**

**Marks**

The following extract relates to climate change and environmental economics.

“There is great uncertainty about the climatic outcomes of varying concentrations of greenhouse gases; about the impact of various climate outcomes; and about the costs and effectiveness of adapting to climate change.

A dramatic transformation in humanity’s use of fossil fuel based energy would be necessary sooner or later to sustain and to extend modern standards of living. It will be required sooner if the world is to hold the risks of climate change to acceptable levels. The costs incurred in making an early adjustment will bring forward, and reduce for future times, the costs of the inevitable adjustment away from fossil fuels.”

Source: Professor Ross Garnaut (2007), *Garnaut Climate Change Review*, 30<sup>th</sup> April.

(a) Define the term *market failure*. 1

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(b) Outline TWO causes of market failure with regard to the use of environmental resources. 2

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(c) Explain the difference between the private cost and the social cost of pollution. 3

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**Question 24 continues on the next page**



Question 24 (continued)

Marks

- (d) Explain TWO economic instruments that a government may use to improve the management of environmental resources.

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End of Question 24

**Section III****Total Marks (20)****Attempt either Question 25 or Question 26****Allow about 35 minutes for this section**

Answer the question on your own paper or in a writing booklet, if provided. Start the question on a new 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)**

Discuss the use of macroeconomic policies in achieving the Australian government's objectives of economic growth and full employment.

"The combined impact of the easing of fiscal and monetary policy is likely to be substantial. The fact that Australia is experiencing, so far, a smaller downturn than most countries reflects in part the relatively smaller extent of the sort of financial excesses that have been the problem in some other countries, as well as the good fortune of our position in relation to China. But significant macroeconomic policy responses will have also played a role. Fiscal initiatives were not only sizeable by global standards, but implemented quickly. The impact of monetary policy easing in terms of reducing debt servicing burdens for borrowers has been greater than in the major northern hemisphere countries.

Source: Glenn Stevens (2009), *Economic Update*, 4<sup>th</sup> June.

Changes in the Cash Rate 2008-09		
Year	Month	% Change in Cash Rate
2008	September	-0.25
	October	-1.00
	November	-0.75
	December	-1.00
2009	February	-1.00
	April	-0.25

Source: Reserve Bank of Australia, *Bulletin*, September 2008 to April 2009 issues.

Forecasts for the Budget Outcome 2008-10		
Year	Fiscal Balance	% of GDP
2008-2009	-\$32.9 billion	-2.7%
2009-2010	-\$53.1 billion	-4.5%

Source: Commonwealth of Australia (2009), Budget Statement No. 1.

**OR**  
**Please turn over**

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

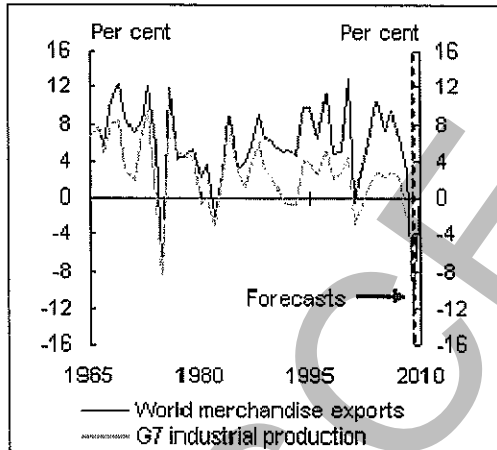
### Question 26 (20 marks)

Examine the impact of changes in the global economy on Australia's economic performance.

“As the global financial crisis took hold, industrial production fell globally and exports collapsed. Household spending also fell as confidence slumped to record lows in many countries. With an estimated annualised contraction of -6.25%, the global economy experienced the sharpest and most synchronised downturn on record in the December quarter 2008. Virtually every advanced economy is expected to be in recession in 2009 with rising unemployment and falling trade.”

Source: Commonwealth of Australia (2009), *Budget Overview*, May.

#### Trade and Industrial Production Growth



Source: Commonwealth of Australia (2009), Budget Paper No. 1.

#### Economic Forecasts - Australia

	2008-09	2009-10
Real GDP	0%	-0.5%
Employment	-0.25%	-1.5%
Unemployment Rate	6.0%	8.25%
Consumer Price Index	1.75%	1.75%
Current Account Balance	-3.0%	-5.25%
(% of GDP)		

Source: Commonwealth of Australia (2009), Budget Paper No. 1.

**Section IV**

**Total Marks (20)**

**Attempt either Question 27 or Question 28**

**Allow about 35 minutes for this section**

Answer the question on your own paper or in a writing booklet, if provided. Start the question on a new page.

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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
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**Question 27 (20 marks)**

Discuss the main causes and economic implications of Australia's current account deficit.

**OR**

**Question 28 (20 marks)**

Discuss Australia's policies regarding free trade and protection and the implications of global protection for the Australian economy.

**End of paper**