**STUDENT NUMBER…………………………**
**Teacher's name...............................................**

# BAULKHAM HILLS HIGH SCHOOL
# TRIAL HIGHER SCHOOL
# CERTIFICATE
# 2010

# Economics

**Reading Time 5min**
**Working time 3hrs**

## General Instructions

- Reading time – 5 minutes
- Working time – 3 hours
- Write using blue or black pen
- Board-approved calculators may be used

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### Section 1

Total marks (20)
Attempt Questions 1 – 20
Allow 35 minutes for this section

### Section 11

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

### Section 111

Total marks (20)
Attempt either Question 25 or Question 26
Allow about 35 minutes for this section

### Section 1V

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 the answer sheet provided
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1.  What is a key factor behind globalisation?

    A.)   The reduction in global tensions
    B.)   A decline in protection worldwide
    C.)   The development and spread of technology
    D.)   The development of common currency systems

2.  For an economy in recession which of the following would be an effective tool of Monetary policy?

    A.)   Reducing interest rates
    B.)   Increasing the minimum wage
    C.)   Increasing subsidies to infant industries
    D.)   Reserve bank purchases of domestic currency on the foreign exchange market.

*3.*  What would be the effect on the Australian economy if all of its major trading partners experienced recessions?

    A)   Higher economic growth and higher export volumes
    B)   Higher economic growth and lower export volumes
    C)   Lower economic growth and lower export volumes
    D)   Lower economic growth and higher export volumes

4.  Which of the following criteria best describes the human development index?

    A.)   Life expectancy, literacy and GDP
    B.)   Distribution of income, life expectancy and GDP
    C.)   Life expectancy, GDP and energy availability
    D.)   GDP, access to doctors and clean drinking water

5.  How are newly industrialised countries characterised?

    A.)   Low rates of economic growth
    B.)   High rates of economic growth
    C.)   Equality of income and high living standards
    D.)   A movement towards more democratic governments

6.  Which component of the Federal Budget is affected by the automatic stablisers?

    A)   The cyclical component
    B)   The structural component
    C)   The discretionary component
    D)   The balance of payments component

7. What is the likely impact of the Japanese government increasing its quota on the importation of Australian beef?

   A.) Australian beef farmers will gain increased access to Japanese beef markets
   B.) Japanese beef farmers will gain increased protection from imports of Australian beef
   C.) There will be an increase in employment opportunities for Japanese beef producers
   D.) There will be a decrease in employment opportunities for Australian beef producers.

8. When will real income increase?

   A) Prices fall faster than consumption
   B) Prices rising faster than productivity
   C) Prices rise slower than money income
   D) Prices fall slower than nominal income

Question 9 is based on the following data for an economy

| Population of working age | Full-time employed | Part-time employed | Unemployed |
|---|---|---|---|
| 20 million | 10 million | 2 million | 1 million |

9. Which of the following statements is correct?

   A.) The participation rate in the economy is 60%
   B.) The participation rate in the economy is 65%
   C.) The unemployment in the economy is 10%
   D.) The unemployment in the economy is 5%

10. What effect will a rise in aggregate demand have on an economy?

   A.) Decrease transfer payments, increase savings, decrease unemployment
   B.) Decrease the level of saving, decrease inventories, increase employment
   C.) Reduce employment of resources, decrease inventories, increase employment
   D.) Reduce taxation revenue, increase employment of resources, increase inventory

11. Given the consumption function C=1000 + 0.75Y, what is the marginal propensity to save?
   A.) 0.25
   B.) 0.75
   C.) 400
   D.) 1000

12. Which of the following groups would benefit most during a period of domestic inflation?

    A.)   Import competing firms
    B.)   Export competing firms
    C.)   Fixed income earners
    D.)   Workers with limited wage power in the marketplace.

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 fall faster than import quantities
    D.)   Export quantities rise faster than import quantities

14. Which of the following would result in an increase in Australia's international competitiveness?

    A.)   Appreciation of the $A
    B.)   Falling real wage rates in the Australian economy
    C.)   Rising inflation rates in the Australian economy
    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 (productivity) were to grow by 1% then what would be the minimum GDP growth rate necessary to prevent unemployment rising?

    A.)   2%
    B.)   3%
    C.)   4%
    D.)   5%

16. Which of the following is regarded as conflicting economic goals in the short term

    A)   Reducing inflation and unemployment
    B)   Income inequality and tax increases
    C)   Economic growth and full employment
    D)   Economic growth and ecological sustainable development

17. Which of the following is an example of a multilateral approach to reducing world trade protection?

    A)   World Trade Organisation (WTO)
    B)   International Monetary Fund (IMF)
    C)   North Atlantic Treaty Organisation (NATO)
    D)   Closer Economic Relations Trade Agreement (CERTA)

18. Which of the following international organisations has as its main aim as 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. Which of the following best explains the movement from AS to AS1?

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


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

   A.)   Fall
   B.)   Rise
   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
_____
21      (10 marks)

> **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.**
> **Government policy needs to adopt ecological sustainability principles.**

a)      What is meant by the term "ecological sustainable development"?                     2

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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 aiming for ecological sustainable development? 2

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d) Discuss the effectiveness of government policy responses to help achieve ecological sustainable development 4

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22   (10 marks)

| | 2000-2001 | 2007-2008 | June 2009 |
|---|---|---|---|
| | $millions | $millions | $millions |
| **Goods** | | | |
| Exports (Credits) | 120 302 | 182 816 | 240 100 |
| Imports (Debits) | -120 120 | -205 089 | 255 100 |
| **Net Goods** | | | |
| **Services** | | | |
| Credits | 32 796 | 51 019 | 51180 |
| Debits | -31 769 | -50 254 | -51327 |
| **Net Services** | | | |
| **Balance on goods and services** | | | |
| **Net income (net primary income)** | **-19 750** | **-48 780** | **-49143** |
| **Current transfers (net secondary income)** | **45** | **-344** | **-974** |
| **Balance on current Account** | **-18 496** | **-70 632** | **-62264** |

**Table 1 Current account components**

a)      What is meant by the term "balance of payments"?                                        2

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b)      Calculate the balance on goods and services for 2007-2008                            1

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c) Identify the trend in the balance on current account, and account for this change ( in your response refer to the table and other information)

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d) Outline how persistent current account deficits contrain the performance of the Australian economy

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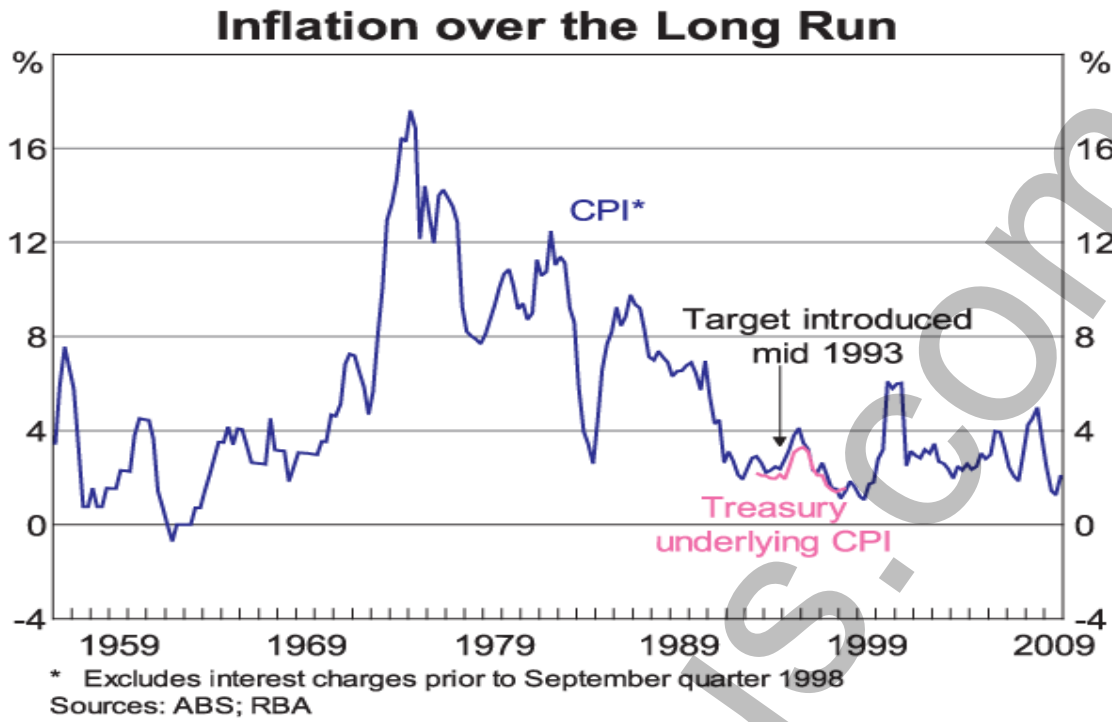.......................................................................................................................................................

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23    (10 marks)

## Inflation over the Long Run



*   Excludes interest charges prior to September quarter 1998
Sources: ABS; RBA

a)    Define inflation?                                                        1

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b)    Describe Australia's inflation record since inflation targeting

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c) Outline two types of inflation

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d) Analyse the benefits of a sustained period of low inflation on Australia's economic performance.

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24    (10 marks)


The following information refers to data compiled by the World Bank for 2007.

|  | Income per capita | Growth in real GDP |
|---|---|---|
| Low income countries | US $ 574 | 6.4% |
| Middle income countries | US $ 2,910 | 8.2% |
| High Income countries | US $ 37,570 | 2.5% |


a)    Distinguish the terms *economic growth and economic development*                    2

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b)    Using the data above, compare living standards between low and high income countries.    2

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c)   Outline TWO reasons for differences in living standards of low income countries.   2

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d)   With specific reference to a country you have studied **other than Australia**, outline the impact of globalisation on living standards of that country other than Australia.

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**Section 111**
**Total marks (20)**
**Attempt either Question 25 or Question 26**
**Allow about 35 minutes for this section.**
**Write your student number and your teacher's name and the question number on the first page of each essay.**

_____

In your answer you will be assessed on how well you:
- Demonstrate your knowledge and understanding relevant to the question.
- Use the information provided
- apply relevant economic terms, concepts, relationships and theory
- present a sustained, logical and cohesive response.

_____

**Question 25** (20 marks)

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



**Economic Indicators**

* Excluding interest charges prior to the September quarter 1998 and adjusted for the tax changes of 1999–2000.
Sources: ABS; RBA
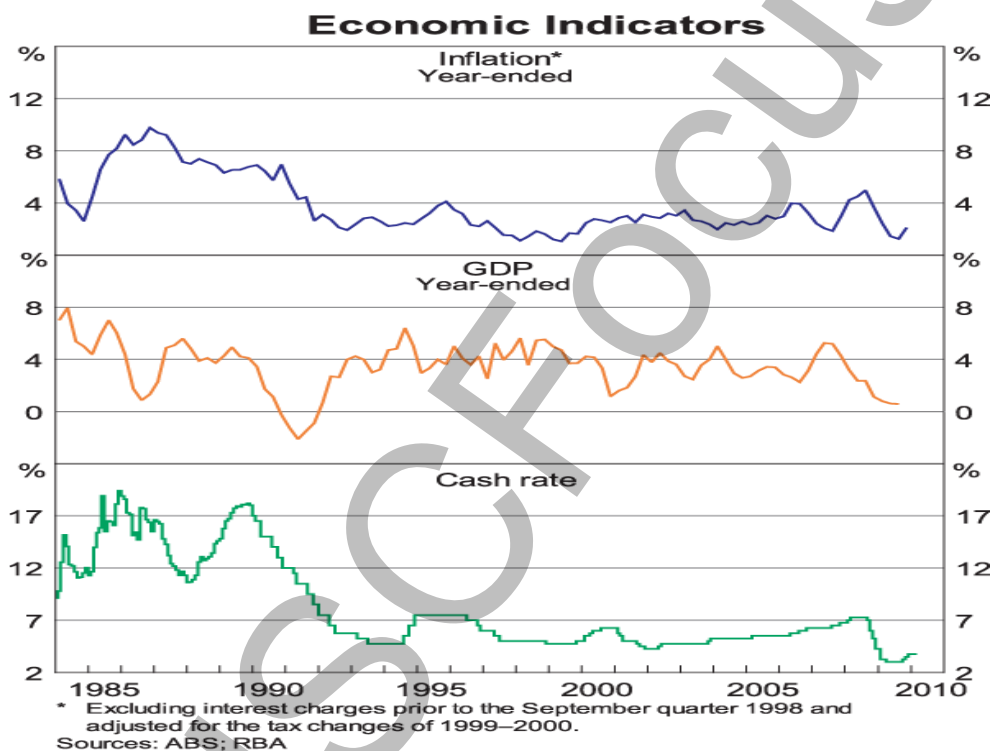
The Reserve Bank runs an independent monetary policy, managing demand by using its control over the official cash rate to influence borrowing and spending.

It adopted an inflation target as its nominal anchor, and its success in achieving that target got inflation expectations back under control.

Ross Gittins SMH

**Question 26** (20 marks)

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

## Real Exchange Rate and Terms of Trade
### Post-float average = 100



*   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
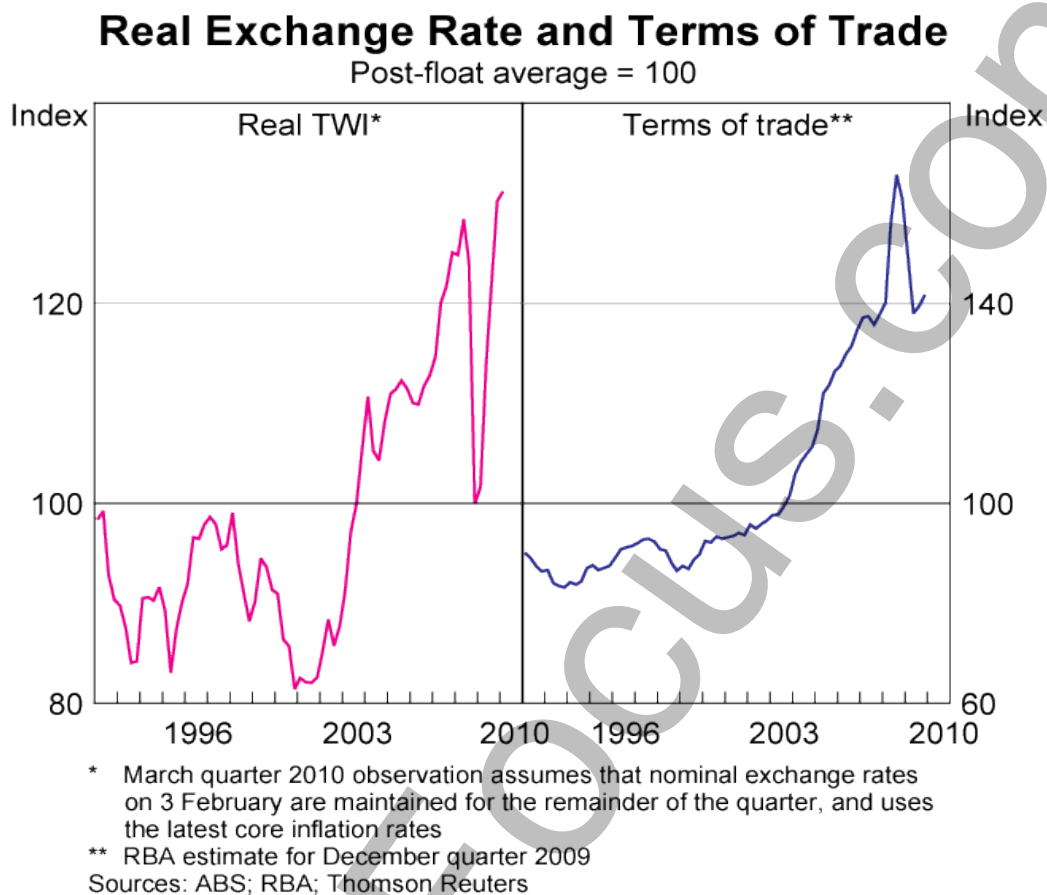
The Australian dollar has moved through a wide range, in part reflecting large portfolio adjustments by global investors. However, the movement in the exchange rate has once again proven to be an important means of assisting the Australian economy adjust to changes in the global economic environment. 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**
**Write your student number and your teacher's name and the question number on the first page of each essay.**

_____

In your answer you will be assessed on how well you:
- Demonstrate your knowledge and understanding relevant to the question.
- apply relevant economic terms, concepts, relationships and theory
- present a sustained, logical and cohesive response

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**Question 27** (20 marks)

Discuss the effectiveness of fiscal policy in maintaining the government's goal of sustainable economic growth in recent times.

**OR**

**Question 28** (20 marks)

Discuss the impact of changes in the global business cycle on Australia's trade and financial flows and the balance of payments.

**STUDENT Number…………………………….**

**Teacher's name...............................................**

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 ⬭