

Independent school,
TRIAL EXAMINATION

2000
ECONOMICS

2 UNIT

*Time allowed – three hours
(plus 5 minutes reading time)*

INSTRUCTIONS

- **Section I (20 Marks)**
Attempt ALL questions
Answer the questions on the grid provided on page 2
- **Section II (20 Marks)**
Attempt BOTH questions
Answer the questions in the spaces provided in this paper
- **Section III (20 Marks)**
Attempt ONE question
Answer the question on a *separate* page (or booklet)
- **Section IV (40 Marks)**
Attempt TWO questions, each from a different option
Answer each question on a *separate* page (or booklet)
- Board approved calculators may be used
- Write your Student Number/Name on every page
- This paper **must not be removed** from examination room

STUDENT NAME / NUMBER :

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SECTION I

Questions 1 - 20 (one mark each)

ALL questions are compulsory

For each question, choose the most correct answer and indicate your choice with a cross (X) in the appropriate space on the grid provided.

	A	B	C	D
1				
2				
3				
4				
5				
6				
7				
8				
9				
10				

	A	B	C	D
11				
12				
13				
14				
15				
16				
17				
18				
19				
20				

SECTION I

Attempt ALL questions.

Select the alternative A, B, C, or D that best answers the question.

1. The labour force participation rate refers to:
 - (A) the percentage of the working age population who are in work
 - (B) the percentage of the population in work or looking for work
 - ✓ (C) the percentage of the population who are working
 - (D) the percentage of the working age population in work or looking for work

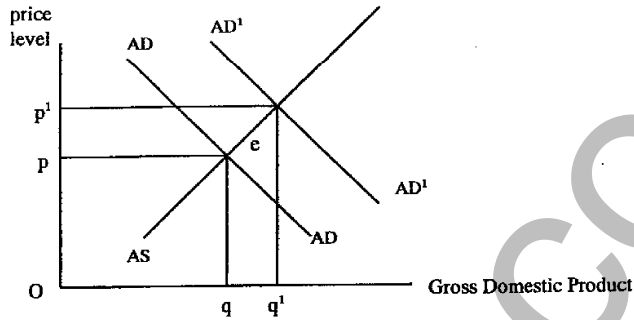
2. An increase in government revenue from the introduction of the Goods and Services Tax (GST) would have the same economic effect as
 - (A) an increase in investment
 - ✓ (B) an increase in consumption
 - (C) an increase in savings
 - (D) an increase in exports

3. All of the following are regarded as microeconomic reforms necessary to improve Australia's international competitiveness except
 - ✓ (A) tariff reductions
 - (B) reduction in budget deficits
 - (C) award restructuring
 - (D) the establishment of specific industry plans

4. If the Australian economy experiences a period of recession
 - (A) the cyclical component of a budget deficit will decrease
 - ✓ (B) the cyclical component of a budget deficit will increase
 - (C) employment will increase
 - (D) automatic stabilisers will tighten fiscal policy

5. The sale of Commonwealth Government Securities by the Reserve Bank of Australia to financial institutions will tend to:
 - (A) decrease interest rates and contract economic activity
 - ✓ (B) decrease interest rates and expand economic activity
 - (C) increase interest rates and contract economic activity
 - (D) increase interest rates and expand economic activity

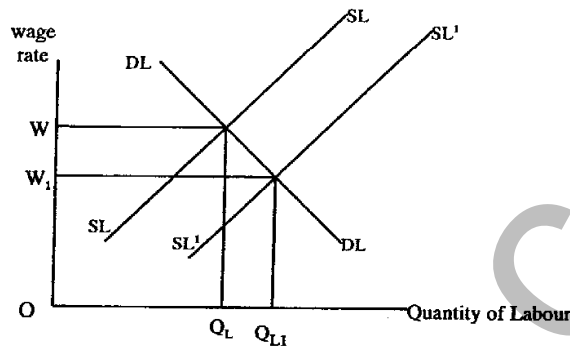
6. The following diagram shows an economy which is originally in equilibrium at point E



The increase in the general price level from P to P' could be the result of:

- (A) cost push inflation
 - ✓ (B) demand pull inflation
 - (C) a rise in the rate of unemployment
 - (D) a rise in domestic interest rates
7. An outward shift of the production possibility curve may be caused by
- (A) a depletion of resources
 - ✓ (B) investment in new equipment
 - (C) a reduction in the size of the workforce
 - (D) depreciation of machinery and buildings
8. The annual 'Safety Net Wage Case'
- ✓ (A) applies to all workers not covered by enterprise agreements
 - (B) applies only to government employees
 - (C) is negotiated between the government and the unions
 - (D) is determined by the annual rate of inflation
9. Aid from Australia to Vietnam for the construction of a large bridge would appear in the balance of payments as
- ✓ (A) a debit in the Capital and Financial Account
 - (B) a debit in the Income section of the Current Account
 - (C) a credit in the Goods and Services section of the Current Account
 - (D) a credit in the Capital and Financial Account

10. The following diagram shows the operation of the supply (SL) and Demand (DL) for labour in a particular industry.



The shift of the supply of labour from S_L to S_{L1} could be explained by

- (A) higher skills required in the industry
 - (B) the availability of cheaper capital
 - (C) greater consumer demand for the firm's product
 - (D) a general improvement in working conditions in the industry
11. Automatic stabilisers
- (A) operate only when the economy falls into recession
 - (B) do not operate during booms in the business cycle
 - (C) reinforce fluctuations in economic activity
 - (D) counter balance fluctuations in economic activity

12.

Year	Import Price Index	Export Price Index
1	105	100
2	120	105

The change in the terms of trade from Year 1 to Year 2 implies that

- (A) the current account will move into surplus
- (B) the exchange rate will appreciate
- (C) the current account will move into deficit
- (D) a given volume of exports will buy a smaller volume of imports

13. The best assessment in economic terms of the Federal government's fiscal stance is

- (A) the domestic budget outcome
- (B) the cyclical component of the budget outcome
- ✓ (C) the domestic and overseas components of the budget outcome
- (D) the structural component of the domestic budget outcome

14. Continuing higher real interest rates in Australia relative to overseas nations could possibly lead to

- ✓ (A) capital inflow from overseas
- (B) a more expansionary monetary policy
- (C) an increase in the level of aggregate demand
- (D) a lower value for the Australian dollar

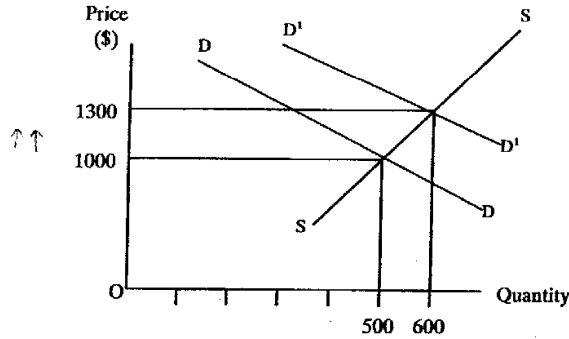
15. The Reserve Bank intervenes in the foreign exchange market in order to

- (A) change the terms of trade
- ✓ (B) allow the Australian dollar to float freely
- (C) smooth out rapid changes in the value of the Australian dollar
- (D) buys and sells the currencies of other countries

16. A rise in which of the following will tend to reduce the level of aggregate demand?

- (A) export receipts
- ✓ (B) interest rates
- (C) the budget deficit
- (D) inbound tourists

17. Question 17 refers to the diagram below showing the market for televisions.



If the demand for televisions increased from DD to D_1D_1 , the price elasticity of demand for televisions would be:

- (A) unit elastic
- (B) price inelastic
- (C) price elastic
- (D) zero elastic

18. An appreciation of the Australian dollar could be caused by:

- (A) an increase in import spending
- (B) lower interest rates in Australia relative to the U.S.
- (C) Reserve Bank sales of Australian dollars
- (D) an increase in world economic growth

19. A benefit of reducing protection in Australia is

- (A) lower prices and more choice for consumers
- (B) infant industries are more competitive
- (C) unemployment is reduced in protected industries
- (D) a lower level of import penetration in Australia

20. The following table shows the production possibilities for wheat and cars for countries X and Y.

	Country X	Country Y
Wheat	100	200
Cars	60	150

According to the information in the table

- (A) Country X has a comparative advantage in car production
 (B) Country X has a comparative advantage in wheat production
 (C) Country Y has a comparative advantage in wheat production
 (D) Country Y has an absolute advantage in car production only

SECTION II

(20 marks)

Attempt BOTH questions

Answer the questions in the spaces provided in this paper

Both questions are of equal value

Marks

21. The following table shows the balance of payments for Australia between 1997 and 1999.

The Balance of Payments 1997-99		(rounded figures)	
	1997-98	1998-99	
Goods Credits	\$ 88,538m	\$ 85,700m	
Goods Debits	-\$ 92,084m	-\$ 98,600m	
Goods Balance	-\$ 3,546m	-\$ 12,900m	
Net Services	-\$ 761m	-\$ 2,100m	
Income	-\$ 18,794m	-\$ 17,500m	
Current Transfers	-\$ 165m	\$ 100m	
Balance on Current Account	-\$ 23,266m	-\$	
Capital Account	\$ 1,127m	\$ 1,200m	
Financial Account	\$ 22,773m	\$ 30,500m	
Net Direct Investment	\$ 2,726m	\$ 12,700m	
Portfolio Investment	\$ 18,565m	\$ 7,800m	
Other Investment	\$ 2,064m	\$ 10,600m	
Reserve Assets	\$ 582m	\$ 600m	
Balance on Financial Account	\$ 22,773m	\$ 30,500m	
Balance on Capital & Financial Account	\$ 23,900m	\$ 31,700m	
Net Errors and Omissions	-\$ 634m	\$ 700m	

Source: ABS Cat. 1350.0, May 1999 and The Leading Edge *Economic Update* September 1999.

- (a) Using the information in the table above, calculate

(i) the current account deficit for 1998-99.

1

(ii) the change in the merchandise trade balance from 1997-98 to 1998-99

1

Marks

- (b) Discuss TWO reasons for the increase in the current account deficit between 1997-98 to 1998-99. **2**

- (c) Explain TWO economic consequences of Australia's persistent current account deficit. **2**

- (d) Explain FOUR policy responses the government has used to try and reduce the current account deficit. **4**

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22.

Marks

“On July 1st 2000, The New Tax System will deliver the largest personal income tax cuts in Australia’s history - \$12 billion a year. Under the new tax scales income tax will be reduced... and more than 80 per cent of tax payers will face a top marginal tax rate of 30 per cent or less.”

INCOME TAX SCALES FROM JULY 1, 2000	
Income (\$)	Tax rate (%)
0 – 6,000	Nil
6,001 – 20,000	17
20,001 – 50,000	30
50,001 – 60,000	42
Above 60,000	47

Source: Budget Overview 2000, Commonwealth of Australia.

- (a) Using the information in the table above, calculate:
- (i) the tax free threshold level of income. 1

 - (ii) the average rate of taxation for a person earning \$50,000. 1

- (b) Explain what is meant by the marginal rate of taxation. 1

- (c) What is the marginal rate of taxation for a person earning \$45,000? 1

- (d) Explain TWO economic costs of broadening the tax base. 2

Marks

(e) Explain TWO economic benefits of broadening the tax base.

2

(f) Explain TWO economic arguments for the government reforming Australia's tax system.

2

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