



HIGHER SCHOOL CERTIFICATE EXAMINATION

1995
ECONOMICS
2/3 UNIT (COMMON)

*Time allowed—Three hours
(Plus 5 minutes' reading time)*

DIRECTIONS TO CANDIDATES

- You may ask for extra Writing Booklets if you need them.
- Board-approved calculators may be used.

Section I (20 marks)

- Attempt ALL questions.
- Mark your answers in pencil on the Answer Sheet provided.
- Select the alternative A, B, C, or D that best answers the question.

Section II (20 marks)

- Attempt BOTH questions.
- Answer the questions in the spaces provided in this paper.
- Write your Student Number and Centre Number in the spaces provided on the first page of each question.

Section III (20 marks)

- Attempt ONE question.
- Answer the question in a *separate* Writing Booklet.

Section IV (40 marks)

- Attempt TWO questions, each from a different option.
- Answer each question in a *separate* Writing Booklet.

SECTION I

(20 Marks)

Attempt ALL questions.

Mark your answers in pencil on the Answer Sheet provided.

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

1. In Economics, the incidence of tax refers to

- (A) how often the tax is collected.
- (B) those who ultimately pay the tax.
- (C) the size of the tax threshold.
- (D) those on whom the tax is initially levied.

2. Structural unemployment occurs when

- (A) workers' skills are no longer appropriate.
- (B) firms are forced to close down because of a recession.
- (C) school leavers are unable to find a job.
- (D) seasonal conditions result in workers being laid off.

3. Consider the following simple income-tax schedule.

<i>Taxable income</i>	<i>Marginal tax rate</i>
\$1 – \$25 000	20%
\$25 001 – \$35 000	30%
\$35 001 – \$50 000	40%
\$50 000 and over	50%

For an individual with a taxable income of \$40 000, the average rate of tax is

- (A) 10%.
- (B) 25%.
- (C) 40%.
- (D) 45%.

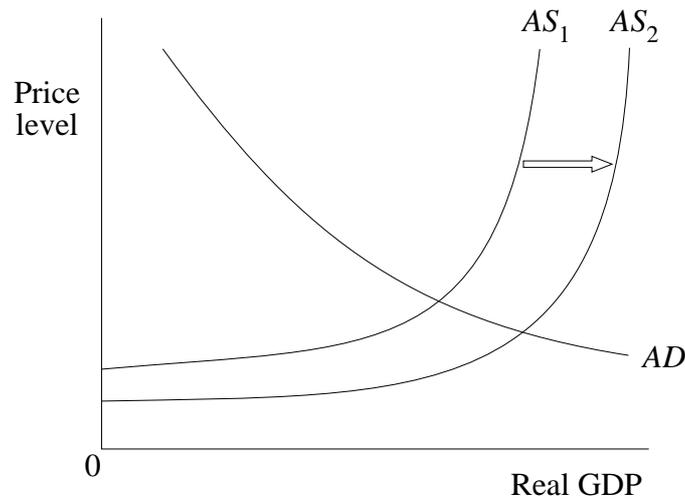
4. A feature of pure competition is

- (A) barriers to entry facing new firms.
- (B) homogeneous products.
- (C) wide variations in prices between firms.
- (D) a limited number of producers with large monopoly power.

5. For a commodity with normally sloped supply and demand curves, the imposition by the Government of a maximum price set below the existing free-market equilibrium price will initially cause
- (A) an expansion in supply and a contraction in demand.
 - (B) an expansion in both supply and demand.
 - (C) a contraction in supply and an expansion in demand.
 - (D) a contraction in both supply and demand.
6. A subsidy granted to an industry would cause
- (A) excess supply and then a fall in price.
 - (B) excess supply and then a rise in price.
 - (C) excess demand and then a rise in price.
 - (D) excess demand and then a fall in price.
7. Privatization involves
- (A) the transfer of assets from the public sector to the private sector.
 - (B) enterprises facing increased competition from the public sector.
 - (C) outlawing practices that reduce competition between the public sector and the private sector.
 - (D) forcing government enterprises to behave exactly as if they were private enterprises.
8. Two indicators of a tightening in fiscal policy in Australia would be
- (A) higher interest rates and reduced government spending.
 - (B) higher tax rates and reduced government spending.
 - (C) increased government spending and lower tax rates.
 - (D) lower tax rates and lower rates of interest.
9. If the rate of growth of GDP were to increase following a recession, then with no change in discretionary government policy
- (A) the structural component of the Federal budget deficit would increase.
 - (B) the cyclical component of the Federal budget deficit would increase.
 - (C) the structural component of the Federal budget deficit would decrease.
 - (D) the cyclical component of the Federal budget deficit would decrease.

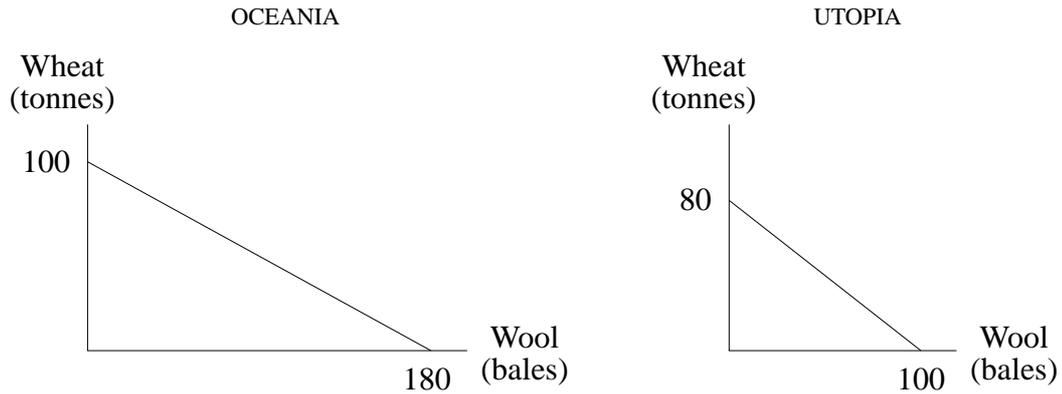
10. If over the next twelve months the labour force were to grow by 3% and output per person employed were to grow by 1%, then the minimum GDP growth rate necessary to prevent the unemployment rate increasing would be
- (A) 2%.
 - (B) 3%.
 - (C) 4%.
 - (D) 5%.
11. The purchase of Government securities by the Reserve Bank on the open market will tend to
- (A) increase liquidity and reduce interest rates.
 - (B) increase liquidity and increase interest rates.
 - (C) reduce liquidity and increase interest rates.
 - (D) reduce liquidity and reduce interest rates.
12. The 'crowding-out' effect refers to
- (A) actions taken by Australia's trading competitors to capture our export markets.
 - (B) competition between banks and other financial institutions for funds.
 - (C) a reduction in the public-sector borrowing requirement in the budget.
 - (D) government borrowings causing a decrease in private investment spending.
13. One effect of using a policy of raising interest rates to restrain domestic demand in Australia is that
- (A) there will be an outflow of foreign capital.
 - (B) the Australian dollar will tend to appreciate.
 - (C) there will be an increase in investment spending.
 - (D) the budget deficit will decrease.
14. 'Enterprise bargaining' is a system of wage determination in which
- (A) a decision on wage increases for all workers is handed down by the Australian Industrial Relations Commission.
 - (B) unions decide the extent of wage increases according to productivity improvements.
 - (C) workers or unions meet with management in individual work places to decide on wage increases.
 - (D) cost of living considerations are the main factors taken into account by workers and management when deciding on wage increases.

15. The following diagram shows aggregate demand and aggregate supply curves for a country.



- A shift of the aggregate supply curve from AS_1 to AS_2 could be caused by
- (A) a fall in government spending on goods and services.
 (B) a rise in government spending on goods and services.
 (C) a rise in per-unit production costs due to managerial problems.
 (D) a fall in per-unit production costs due to microeconomic reform.
16. If a country experiences a decline in its terms of trade, then
- (A) the prices of its exports have risen relative to the prices of its imports.
 (B) the volume of its exports has risen relative to the volume of its imports.
 (C) the prices of its imports have risen relative to the prices of its exports.
 (D) the volume of its imports has risen relative to the volume of its exports.
17. The purchase of shares in an Australian company by Japanese investors will appear in Australia's balance of payments as
- (A) a credit on capital account.
 (B) a credit on current account.
 (C) a debit on capital account.
 (D) a debit on current account.
18. Reduced tariff protection for an Australian industry will
- (A) increase the price of the product to the domestic consumer.
 (B) eliminate the foreign product from the Australian market.
 (C) increase employment in the domestic industry in the short term.
 (D) decrease the share of the domestic market for Australian firms.

19.



The diagram shows the production possibilities for two countries, Oceania and Utopia, in the production of two commodities, wool and wheat. (Opportunity costs of production are constant in each country.)

- (A) Oceania has a comparative advantage in the production of wool.
 - (B) Oceania has a comparative advantage in the production of wool and wheat.
 - (C) Utopia has a comparative advantage in the production of wool and wheat.
 - (D) Utopia has a comparative advantage in the production of wool.
20. An increase in the demand for Australian dollars on the foreign exchange market will result from
- (A) more Australian tourists travelling to overseas destinations.
 - (B) foreign speculators expecting the Australian dollar to depreciate.
 - (C) a lowering of domestic interest rates by the Reserve Bank.
 - (D) foreign investors increasing their purchase of shares in Australian companies.

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EXAMINER'S USE ONLY

Q 21

STUDENT NUMBER**HIGHER SCHOOL CERTIFICATE EXAMINATION
ECONOMICS
2/3 UNIT COMMON****CENTRE NUMBER**

SECTION II

(20 Marks)

Attempt BOTH questions.

Answer the questions in the spaces provided in this paper.

All questions are of equal value.

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21. The table below is based on recent Australian balance of payments figures.

THE BALANCE OF PAYMENTS
(\$ million)

THE CURRENT ACCOUNT

	1991-92	1992-93	1993-94
<i>Merchandise Trade</i>			
Exports f.o.b.	54 874	60 022	63 872
Imports f.o.b.	-51 055	-59 427	-64 401
Balance on merchandise trade	3 819	595	-529
<i>Services</i>			
Net services	-2 243	-2 414	-1 110
Balance on goods and services	1 576	-1 819	-1 639
<i>Income</i>			
Net income	-15 788	-14 245	-14 580
<i>Unrequited transfers</i>			
Net unrequited transfers	2 241	727	275
<i>Balance on current account</i>	-11 971	-15 337	-15 944

THE CAPITAL ACCOUNT

	1991-92	1992-93	1993-94
<i>Net capital transactions</i>			
<i>Official</i>			
General Government	2 722	11 630	5 779
Reserve Bank	3 950	3 989	-1 104
Total net official	6 672	15 619	4 675
<i>Non-official (i.e. foreign investment in Australia minus investment abroad)</i>			
Total net non-official, including balancing item	5 299	-282	11 269
<i>Balance on capital account</i>	11 971	15 337	15 944

From ABC catalogue 5302.0, June Qtr 1994.

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21. (Continued)

Marks

(a) Define 'balance of payments'.

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(b) Using the table, give reasons for the change in the balance on current account since 1991-92.

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(c) Explain the reason for the relationship between the capital account balance and the current account balance.

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21. (Continued)

Marks

(d) Why might the Government seek to reduce the current account deficit?

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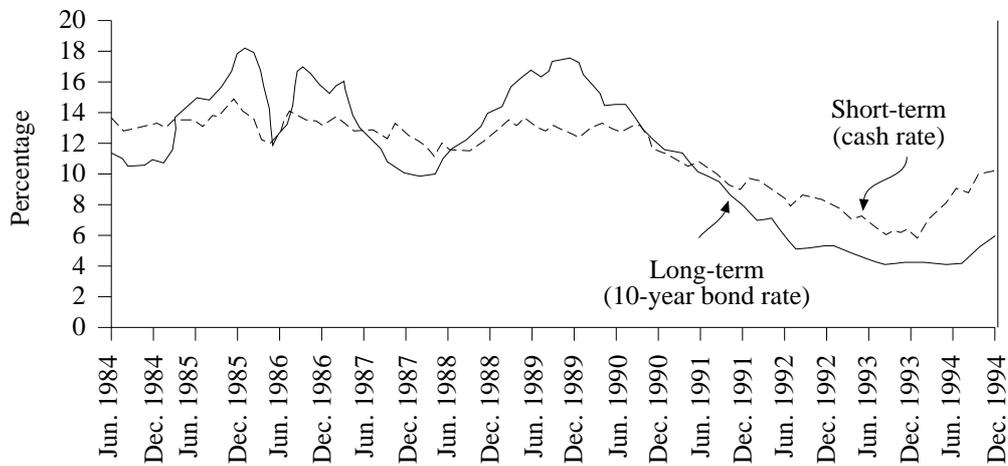
**HIGHER SCHOOL CERTIFICATE EXAMINATION
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CENTRE NUMBER

Marks

- 22.** The graph below shows the behaviour of a representative short-term interest rate and a representative long-term interest rate in Australia for the period 1984–94.

INTEREST RATES: 1984–1994



- (a) What are interest rates? **1**

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- (b) What factors have influenced the level of interest rates in Australia over the last decade? **3**

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22. (Continued)

Marks

(c) How can changes in interest rates affect the level of economic activity?

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(d) How can changes in interest rates affect the value of the Australian dollar?

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**HIGHER SCHOOL CERTIFICATE EXAMINATION
ECONOMICS
2/3 UNIT COMMON**

SECTIONS III AND IV

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SECTION III

(20 Marks)

Attempt *EITHER* Question 23 *OR* Question 24.

Answer the question in a *separate* Writing Booklet.

All questions are of equal value.

EITHER

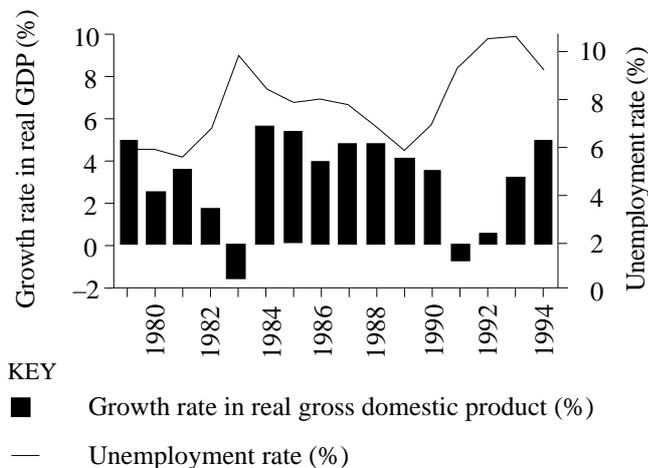
23. With the assistance of the following information and using your knowledge of Economics, write an essay on

Economic Growth and Unemployment in Australia.

In your essay include some discussion of the following points:

- recent trends in economic growth in Australia;
- the importance of maintaining strong economic growth to reduce the level of unemployment;
- external and internal constraints on growth;
- government policies to maintain a strong growth rate.

GDP GROWTH AND UNEMPLOYMENT IN AUSTRALIA



For Australia to reduce its unemployment rate to 5 per cent by the year 2000, the economy would need to grow at an average annual rate of between 4.5 per cent and 5 per cent. This can be done, but only if Australia is sufficiently competitive . . .

The relaxation of the inflationary constraint to faster economic growth allows the potential production of the unemployed and discouraged workers to be tapped.

Committee on Employment Opportunities, *Restoring Full Employment*, 1993, p 51, AGPS.
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OR

24. With the assistance of the following information and using your knowledge of Economics, write an essay on

Microeconomic Reform in Australia.

In your essay, include some discussion of the following points:

- the meaning of the term ‘microeconomic reform’;
- examples of recent microeconomic reforms;
- reasons for microeconomic reform;
- possible effects of microeconomic reform in the Australian economy.



Budget Statements 1993-94, paper no. 1, p 2.37 Chart 30.
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(Base year 1989–90 = 100)

A fall in this index represents an improvement in competitiveness.

Successful microeconomics means also that the skills of the workforce and the quantity and quality of the stock of plant and equipment are built up and then deployed in the ways that take greatest advantage of developments of new products, new techniques, and new market opportunities. Hence the pace of advance of the society's material welfare is maximized.

SECTION IV

(40 Marks)

Attempt TWO questions, each from a different option.

Answer each question in a *separate* Writing Booklet.

All questions are of equal value.

LABOUR ECONOMICS*EITHER*

25. What have been the main changes in the methods of wage determination in Australia over the last decade? What are the main benefits sought from the movement towards a system of enterprise bargaining? Discuss the potential disadvantages of this system for the management of the Australian economy.

OR

26. What factors determine the demand for labour and the supply of labour in the Australian economy? How are these factors affected by the business cycle? Illustrate your answer with reference to the Australian economy.

INDUSTRY ECONOMICS*EITHER*

27. How does the determination of the price-and-output policy of a producer in an oligopolistic market differ from that of a producer in a more competitive market structure? Why are so many Australian markets oligopolistic? What are the consequences of this for the conduct and performance of Australian industries?

OR

28. How can the degree of competition in a market be identified? In what ways, and for what reasons, has the Government sought to encourage more competition within Australian markets?

DEVELOPMENT ECONOMICS*EITHER*

29. What are the main indicators of the level of economic development of a country? Use examples to contrast the level of development in different countries. What problems are likely to be encountered in attempting to promote global equality?

OR

30. What is the difference between economic growth and economic development? Using examples, discuss alternative development strategies for less-developed countries.

ECONOMICS OF PRIMARY INDUSTRIES

EITHER

- 31.** What are the major influences on the level of farm incomes in the Australian agricultural sector? Using specific examples, discuss measures taken by the Australian Government to assist the agricultural sector.

OR

- 32.** What is the contribution of the mining sector to the Australian economy? What current problems and issues does the mining sector face? Discuss the possible impact of government policies on the future of mining in this country.

DISTRIBUTION OF INCOME AND WEALTH

EITHER

- 33.** How do market forces influence the distribution of income in Australia? What role do institutional and social factors have in affecting this distribution? Discuss the impact of government policies on the distribution of income in Australia.

OR

- 34.** Distinguish between absolute and relative poverty. Why do some groups in Australia earn incomes below the poverty line? Discuss the effectiveness of government policies designed to help low-income earners in Australia.

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