



HIGHER SCHOOL CERTIFICATE EXAMINATION

1996
ECONOMICS
2/3 UNIT (COMMON)

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

DIRECTIONS TO CANDIDATES

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

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.

Each question is worth 1 mark.

Mark your answers in pencil on the Answer Sheet provided.

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

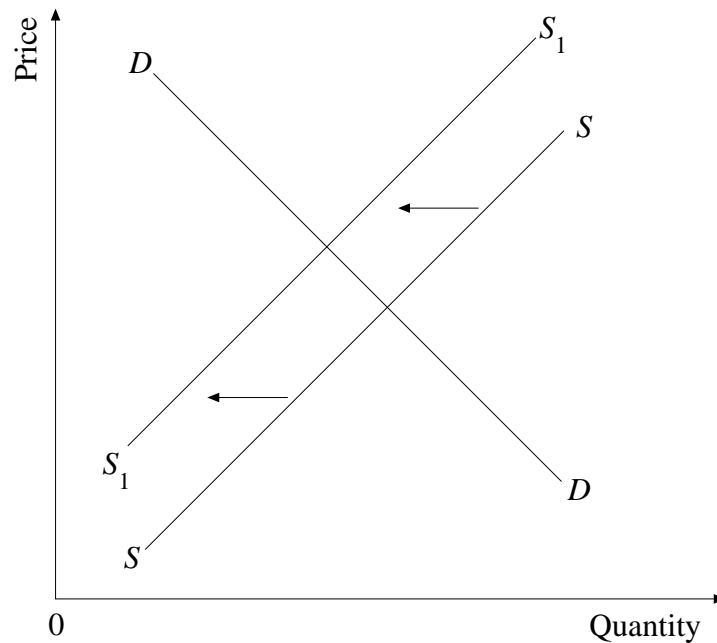
1. 'Internal balance' refers to
 - (A) full employment and a reduced foreign debt.
 - (B) price stability and a stable exchange rate.
 - (C) full employment and price stability.
 - (D) a reduced foreign debt and low inflation.

2. Which of the following best describes an oligopolistic industry?
 - (A) Many sellers, homogeneous product, no control over price.
 - (B) Many sellers, differentiated product, non-price competition.
 - (C) Few sellers, differentiated product, non-price competition.
 - (D) Few sellers, homogeneous product, no control over price.

3. The level of hidden unemployment tends to fall when
 - (A) the level of economic activity increases.
 - (B) the level of cyclical unemployment increases.
 - (C) the number of discouraged jobseekers increases.
 - (D) the level of structural unemployment increases.

4. If the Australian dollar depreciates in foreign exchange markets, then
 - (A) overseas residents find that Australian goods are more expensive.
 - (B) the Australian dollar buys more goods in the foreign goods market.
 - (C) imported goods are less expensive for Australian residents.
 - (D) overseas residents find that Australian goods are less expensive.

5. In the following diagram, DD and SS represent the demand and supply for cars.



The most likely cause of the shift in the supply curve for cars from SS to S_1S_1 is

- (A) a decrease in the subsidy paid to car manufacturers.
 (B) an increase in the subsidy paid to car manufacturers.
 (C) an increase in the price of cars.
 (D) a decrease in the price of cars.
6. Which combination of policies would provide the greatest stimulus to domestic employment and output in the short run?
- (A) Raising tariffs and providing subsidies for exports.
 (B) Lowering tariffs and providing subsidies for exports.
 (C) Lowering quotas on imports and placing taxes on exports.
 (D) Imposing quotas on imports and placing taxes on exports.

7. The following information refers to a nation's balance of payments.

	<i>\$ billion</i>
Balance on merchandise trade	- 6
Net services	- 4
Net unrequited transfers	2
Balance on capital account	20

From the above information, the value of net income is

- (A) \$8 billion.
 (B) -\$8 billion.
 (C) \$12 billion.
 (D) -\$12 billion.
8. If Australia removed tariffs on running shoes imported from the United States, we would initially expect
- (A) the price of running shoes to rise in Australia.
 (B) the price of running shoes to fall in Australia.
 (C) employment to rise in the Australian shoe-manufacturing industry.
 (D) employment to fall in the United States shoe-manufacturing industry.
9. Monetary policy that aims to reduce the growth of the money supply and credit is likely to
- (A) increase interest rates and reduce private sector investment.
 (B) increase both interest rates and private sector investment.
 (C) reduce interest rates and increase private sector investment.
 (D) reduce both interest rates and private sector investment.
10. On the Australian balance of payments, a capital outflow occurs when
- (A) Australians purchase shares in overseas companies.
 (B) Australian companies sell shares to overseas residents.
 (C) Australians buy capital goods from overseas residents.
 (D) Australians sell capital goods to overseas residents.

11. In the four diagrams below, DD and SS represent demand and supply curves for Good X.

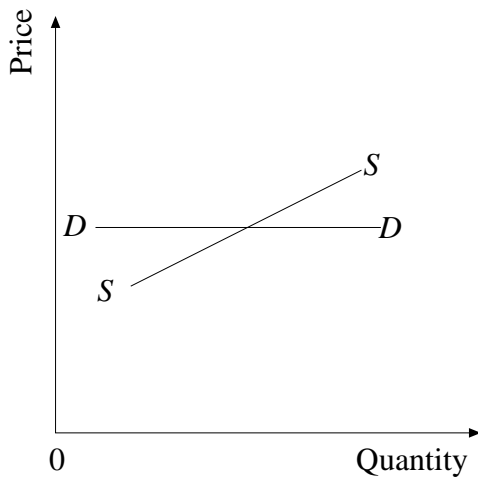


DIAGRAM 1

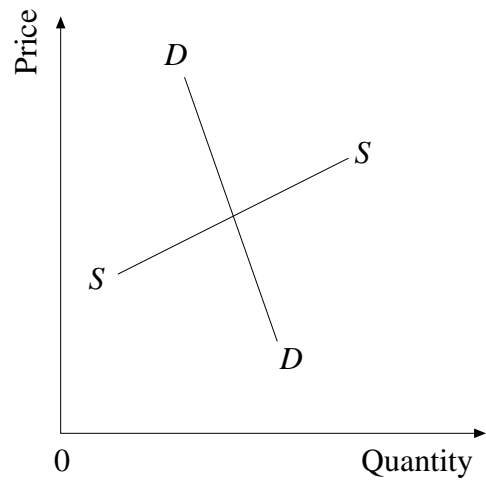


DIAGRAM 2

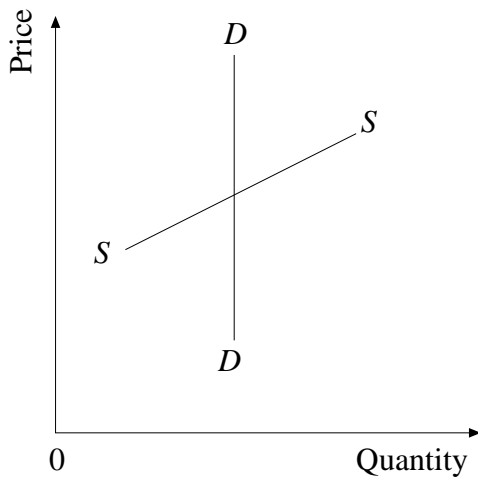


DIAGRAM 3

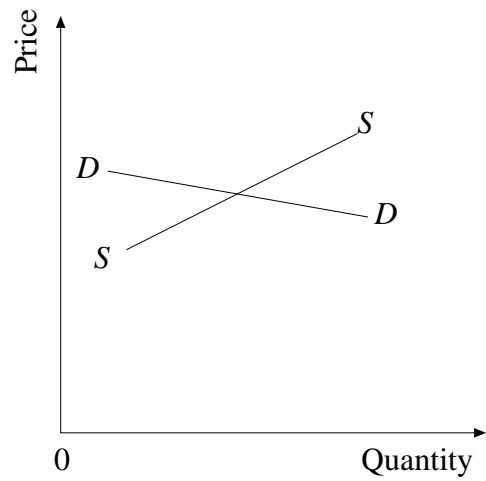


DIAGRAM 4

If an indirect tax is imposed on Good X, in which of the diagrams will consumers pay the largest proportion of that tax?

- (A) Diagram 1
- (B) Diagram 2
- (C) Diagram 3
- (D) Diagram 4

- 12.** The market system generally fails to produce public goods because
- (A) consumers in the market place have little demand for public goods.
 - (B) private industry cannot restrict the benefits to only those who are willing to pay for public goods.
 - (C) government business enterprises can produce public goods cheaper than private industry.
 - (D) the existence of public goods increases the inequality of income distribution.
- 13.** 'Technical efficiency' is best defined as
- (A) producing at the minimum average cost level of output.
 - (B) employing current technology to improve productivity.
 - (C) allocating resources according to consumer preferences.
 - (D) increasing the rate of capital accumulation.

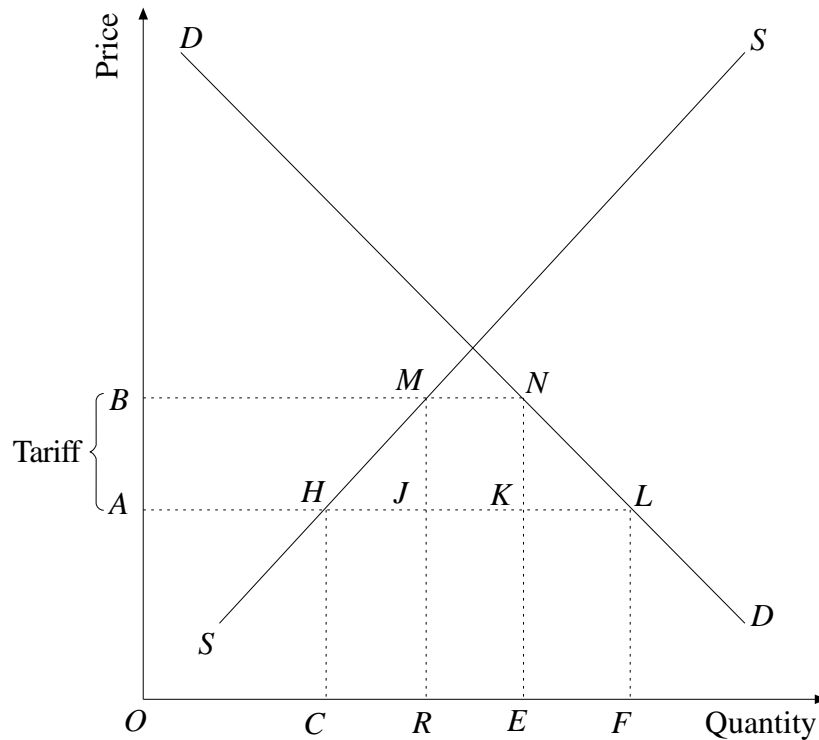
14.

	<i>\$ billion</i>
Savings	30
Investment	20
Taxation	10
Exports	15
Government spending	20
Imports	10

From the information given in the table above, it can be said that

- (A) the level of national income is in equilibrium.
 - (B) the level of economic activity will tend to rise.
 - (C) planned expenditure equals actual expenditure.
 - (D) the level of economic activity will tend to fall.
- 15.** The traditional Phillips curve suggests a trade-off between
- (A) unemployment and inflation.
 - (B) inflation and income equality.
 - (C) economic growth and full employment.
 - (D) unemployment and income equality.

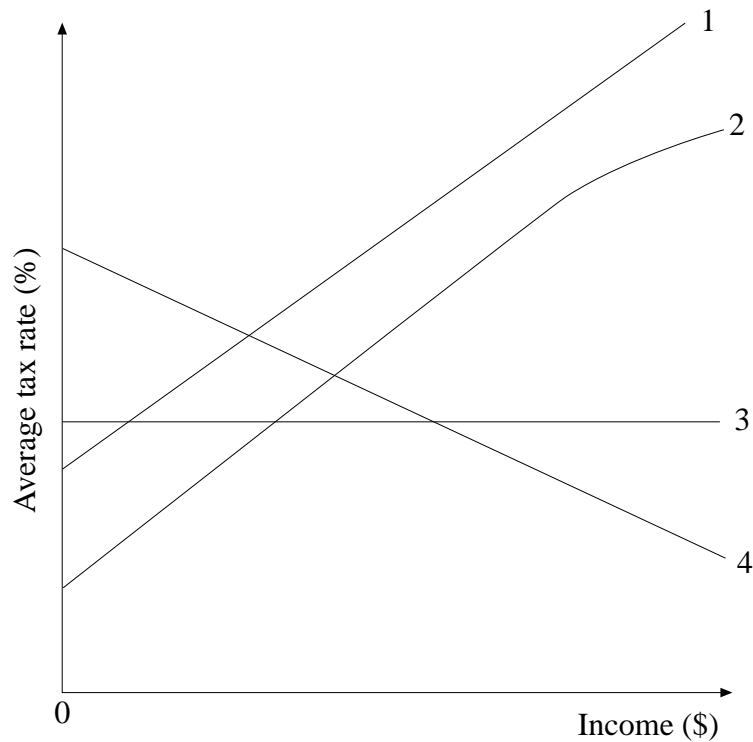
16. In the following diagram, DD and SS represent the domestic demand and supply curves, respectively, for cars. OA is the price for cars before a tariff is imposed and OB is the price for cars after a tariff is imposed.



The expenditure on imported cars after the tariff is imposed is equal to the area

- (A) $CHLF$.
 (B) $RMNE$.
 (C) $JMNK$.
 (D) $RJKE$.
17. An increase in personal income tax rates will tend to
- (A) increase aggregate demand by causing interest rates to fall.
 (B) increase aggregate demand by causing planned investment to rise.
 (C) decrease aggregate demand by causing disposable income to fall.
 (D) decrease aggregate demand by causing interest rates to rise.

18.



In the diagram above, which of the lines represents a regressive tax?

- (A) 1
 - (B) 2
 - (C) 3
 - (D) 4
19. If the economy is in recession, an appropriate fiscal–monetary policy mix might be to
- (A) lower taxes, decrease government spending, and expand the money supply.
 - (B) lower taxes, increase government spending, and contract the money supply.
 - (C) lower taxes, increase government spending, and expand the money supply.
 - (D) lower taxes, decrease government spending, and contract the money supply.
20. An increase in the income tax threshold will, other things being equal,
- (A) increase the average rate of income tax.
 - (B) decrease the average rate of income tax.
 - (C) increase both the marginal rate of income tax and the average rate of income tax.
 - (D) leave both the average rate of income tax and the marginal rate of income tax unchanged.

EXAMINER'S USE ONLY

STUDENT NUMBER

Q. 21

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1996
HIGHER SCHOOL CERTIFICATE EXAMINATION
ECONOMICS
2/3 UNIT (COMMON)

CENTRE NUMBER

[Empty box for Centre Number]

SECTION II

Marks

(20 Marks)

Attempt BOTH questions.

Both questions are worth 10 marks.

Answer the questions in the spaces provided in this paper.

21. If Australia wishes to improve its international competitiveness, then microeconomic reform must continue to be a major instrument of economic policy.

Significant progress has been made in introducing microeconomic reform across a broad spectrum of Australian industries over the past decade. Many industries in both the private and public sectors have undergone massive changes in their structure and operation since these reforms were introduced . . .

However the task of reforming the Australian industrial base is far from complete . . . Microeconomic reform comes at a cost . . . There is a limit to the speed with which significant changes in the workplace can be introduced, especially when opposition to the reforms is intense . . .

With the assistance of the quotation above, answer the following questions.

- (a) Outline TWO ways in which microeconomic reform should enable Australia to 'improve its international competitiveness'. 2

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21. (Continued)

Marks

- (b) Using TWO examples, briefly explain how microeconomic reforms have brought about massive changes in the structure and operation of Australian industries.

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- (c) Explain why there is a 'limit to the speed with which significant changes in the workplace can be introduced'.

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EXAMINER'S USE ONLY

STUDENT NUMBER

Q. 22

**1996
HIGHER SCHOOL CERTIFICATE EXAMINATION
ECONOMICS
2/3 UNIT (COMMON)—SECTION II**

CENTRE NUMBER

22. The table below gives selected economic data for a country.

Marks

Year	% change in real output on previous year	Consumer Price Index	Employed persons (millions)	Unemployed persons (millions)
1	4.6	105	54.0	5.5
2	3.1	110	54.5	5.8
3	0.6	113	54.0	6.0
4	3.1	120	55.0	5.5
5	4.2	129	57.0	4.8

In parts (a) and (b), show all necessary working. Marks may be awarded for relevant working.

(a) From the data in the table, calculate the unemployment rate in Year 3. **1 $\frac{1}{2}$**

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(b) From the data in the table, calculate the inflation rate in Year 5. **1 $\frac{1}{2}$**

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22. (Continued)

Marks

- (c) What evidence in the table indicates that Year 3 was a period of relatively low economic activity?

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- (d) Suggest appropriate macroeconomic policy measures to address the problem of rising inflation evident in the table between Years 3 and 5. Give reasons for your answer.

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**1996
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ECONOMICS
2/3 UNIT (COMMON)—SECTIONS III AND IV**

SECTION III

(20 Marks)

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

Both questions are of equal value.

Answer the question in a *separate* Writing Booklet.

EITHER

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

Improving Australia's Trade Performance.

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

- problems associated with Australia's recent trade performance;
- multilateral trade agreements aimed at improving Australia's trade performance;
- other government policies designed to improve Australia's trade performance.

One of the key objectives of APEC is to liberalise trade by reducing barriers such as tariffs and difficult customs procedures. The benefits of greater liberalisation of international trade include increased economic welfare, improved international competitiveness and improved international relations.

D. CLARKE and B.J. WILLIAMS,
The Benefits and Costs of APEC: An Interdisciplinary Inquiry, 1995
Economics, October 1995

The APEC idea is catching. The World Trade Organisation is likely to follow the lead given by the Asia-Pacific Economic Cooperation forum and commit itself to a global free-trade area by 2020.

‘APEC sets the world standard for free trade’
The Australian, 26 February 1996

OR

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

Monetary Policy in Australia.

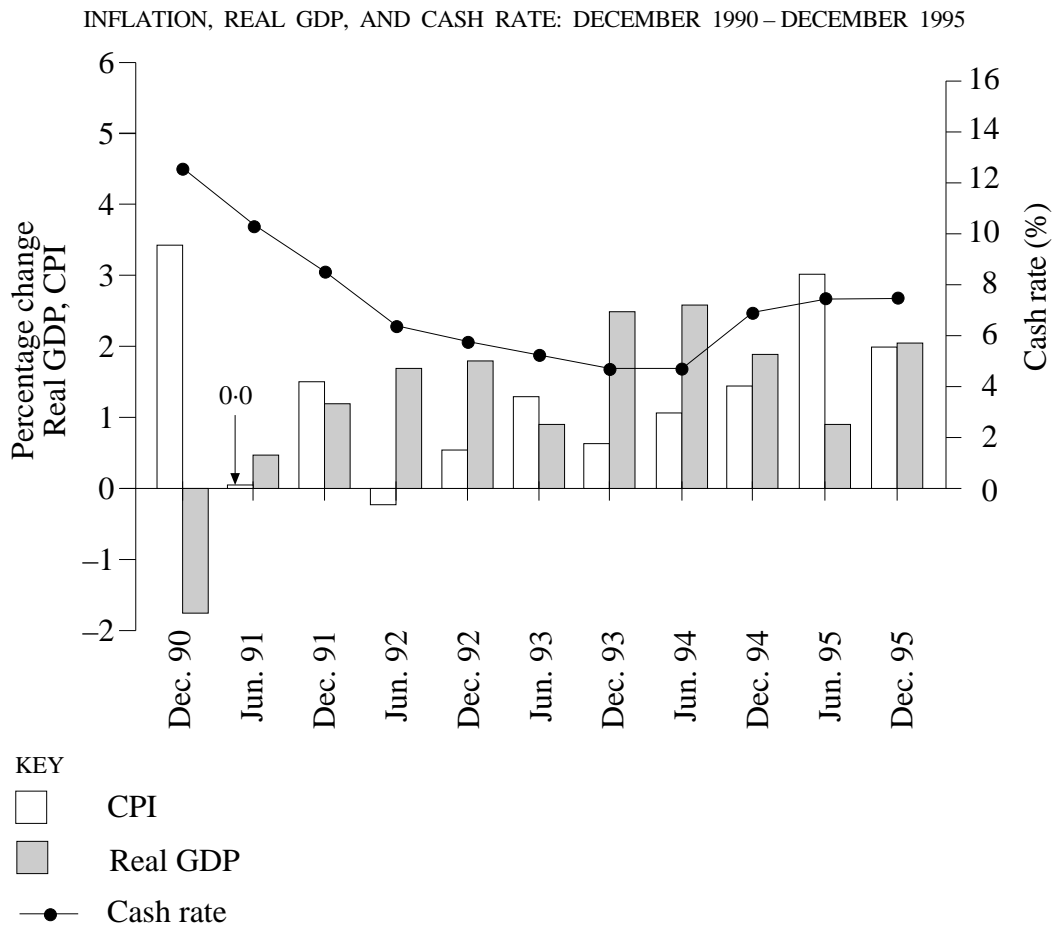
In your essay, include some discussion of the following points:

- the meaning of ‘monetary policy’;
- current objectives of monetary policy;
- the way in which monetary policy currently operates;
- current problems in using monetary policy as a tool of economic management.

A central goal of economic policy is to ensure that unemployment continues to fall. To achieve this it is necessary to avoid excessive inflation and current account pressures that have accompanied, and ultimately constrained robust growth in the past . . .

Monetary policy is important in limiting the inflationary expectations of wage and price setters. Given the . . . lags in its impact on the economy and the need to head off inflationary pressures, monetary policy has been adjusted in the cycle and the monetary authorities’ intentions have been made transparent.

Commonwealth of Australia, *Budget Statements 1995–96*,
Budget Paper No. 1, pp. 2:33–2:34
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SECTION IV

(40 Marks)

Attempt TWO questions, each from a different option.

Each question is worth 20 marks.

Answer each question in a *separate* Writing Booklet.

LABOUR ECONOMICS*EITHER*

25. Outline the role of employer organisations and employee organisations in the current determination of wages and working conditions in Australian labour markets. How and why does the government intervene in labour markets in Australia?

OR

26. Distinguish between an award and an enterprise agreement. Why has Australia moved towards a decentralised wage determination system? Discuss the effects of a decentralised system of wage determination on the operation of labour markets in Australia.

INDUSTRY ECONOMICS*EITHER*

27. Compare the conduct of typical firms in TWO different market models. Outline the ways in which the government might influence the conduct of these firms. Illustrate your answer with examples from the Australian economy.

OR

28. Outline the types of government policies designed to support industry in the Australian economy. Examine the reasons for changes in governments' approaches to industry policies in recent years.

DEVELOPMENT ECONOMICS*EITHER*

29. Outline the main sources of economic growth. Discuss the possible role of developed nations in promoting growth in developing countries. Use examples to illustrate your answer.

OR

30. Outline the strategies that can be used by governments of less developed countries to promote economic growth. Discuss the costs and benefits of a higher level of economic development for developing countries. Use examples to illustrate your answer.

Please turn over

ECONOMICS OF PRIMARY INDUSTRIES*EITHER*

31. Outline ways in which the Australian mining industry has changed in recent years. What influences does the international sector have on the Australian mining industry? Explain how the mining industry in Australia is affected by government environmental policies.

OR

32. Outline the contribution of the agricultural sector to output and employment in the Australian economy. What are the main problems currently faced by Australian agricultural industries? Discuss policies governments can implement to overcome these problems.

DISTRIBUTION OF INCOME AND WEALTH*EITHER*

33. How is the inequality of income measured? Outline the costs and benefits for the Australian economy of inequality in the distribution of income. Discuss government policies designed to promote a more equitable distribution of income in Australia.

OR

34. Distinguish between 'income' and 'wealth'. Outline the factors influencing the distribution of wealth in Australia. Discuss the problems faced by the Australian Government in attempting to bring about a more equitable distribution of income and wealth.