



HIGHER SCHOOL CERTIFICATE EXAMINATION

1997  
**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.

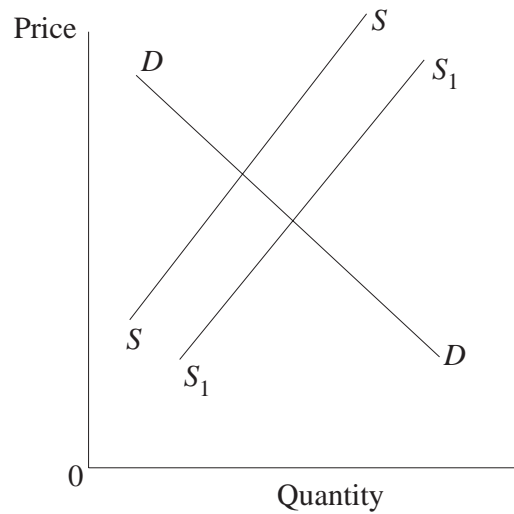
Each question is worth 1 mark.

Mark your answers in pencil on the Answer Sheet provided.

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

1. Consumer sovereignty occurs when
  - (A) consumers pay less for a good than they are willing to pay.
  - (B) consumer demand determines what is to be produced.
  - (C) there is no advertising in a market.
  - (D) demand equals supply.
  
2. If a nation's output rises, it would be expected that
  - (A) consumption and savings would rise.
  - (B) consumption and savings would fall.
  - (C) consumption would rise and savings would fall.
  - (D) consumption would fall and savings would rise.
  
3. One aim of competition policy is to
  - (A) improve the efficiency of supply.
  - (B) increase barriers to entry.
  - (C) slow structural change.
  - (D) sell all government-owned firms.
  
4. The problem of rising inflation is more likely to occur when
  - (A) unemployment is high and interest rates are high.
  - (B) unemployment is low and interest rates are high.
  - (C) unemployment is high and interest rates are low.
  - (D) unemployment is low and interest rates are low.

5. In the following diagram,  $DD$  and  $SS$  represent the demand and supply curve for a good.



If a subsidy of \$5 per unit were paid to producers, shifting the supply curve from  $SS$  to  $S_1S_1$ , then, other things being equal, the price of the good would

- (A) fall by \$5.  
 (B) fall by more than \$5.  
 (C) fall by less than \$5.  
 (D) remain unchanged.
6. The combination of policies that would most likely provide the greatest stimulus to domestic employment and output in the short run is
- (A) increased interest rates, lower income tax rates, and increased government expenditure.  
 (B) lower interest rates, higher income tax rates, and reduced government expenditure.  
 (C) increased interest rates, higher income tax rates, and reduced government expenditure.  
 (D) lower interest rates, lower income tax rates, and increased government expenditure.
7. If the Reserve Bank of Australia aims to reduce the rate of inflation, it could
- (A) increase interest rates and reduce the growth of money and credit.  
 (B) increase both interest rates and the growth of money and credit.  
 (C) reduce interest rates and increase the growth of money and credit.  
 (D) reduce both interest rates and the growth of money and credit.

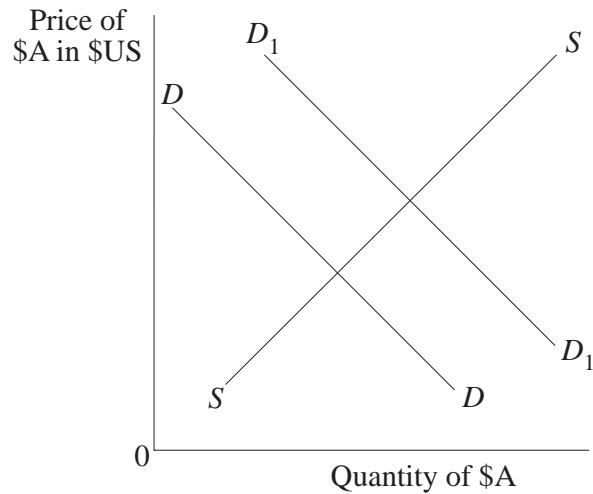
8. The following information refers to a nation's terms of trade.

<i>Year</i>	<i>Import Price Index</i>	<i>Export Price Index</i>
1	100	100
2	130	104

Other things being equal, the change in this nation's terms of trade from Year 1 to Year 2 means that

- (A) the nation's value of exports is greater than its value of imports.
  - (B) the nation will increase its reserves of foreign currency.
  - (C) the nation can buy fewer imports with a given volume of exports.
  - (D) the nation's current account deficit will fall.
9. In a progressive income tax system
- (A) both the marginal tax rate and the average tax rate rise with levels of income.
  - (B) the marginal tax rate rises with income, while the average tax rate remains constant.
  - (C) the tax-free threshold rises with levels of income.
  - (D) the average tax rate remains the same for different levels of income.
10. Public goods are supplied by governments rather than by private firms because
- (A) public goods are the major source of government income.
  - (B) governments can supply these goods more efficiently than private firms.
  - (C) public goods are free to produce.
  - (D) private firms are unwilling to supply these goods in appropriate quantities.

11.



In the above diagram, the shift in the demand curve from  $DD$  to  $D_1D_1$  could have been caused by

- (A) increased capital inflow and increased demand for imports.
- (B) decreased capital inflow and increased demand for exports.
- (C) decreased capital inflow and increased demand for imports.
- (D) increased capital inflow and increased demand for exports.

12. Market failure occurs when

- (A) demand and supply do not reflect all the costs and benefits of production.
- (B) merit goods are provided by the private sector.
- (C) demand and supply are in disequilibrium.
- (D) the quantity demanded for the good is less than the quantity supplied of the good.

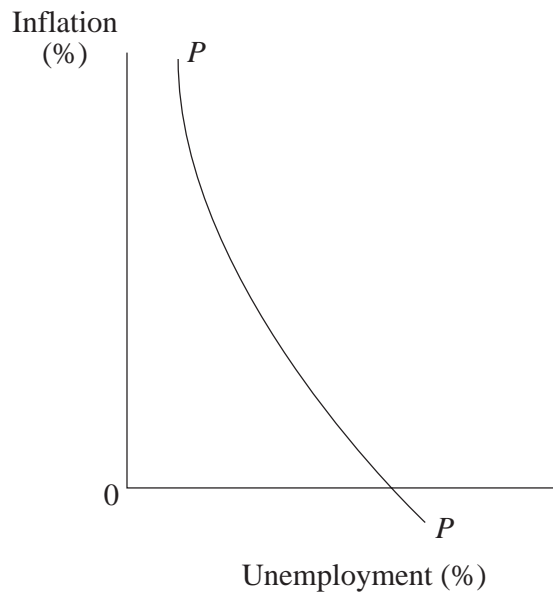
13. Increases in Australian exports, foreign travel in Australia, and foreign capital inflow into Australia would cause

- (A) a depreciation of the Australian dollar.
- (B) an increase in supply of foreign currency into Australia.
- (C) an increase in demand for foreign currency by Australians.
- (D) a decrease in foreign exchange reserves in Australia.

14. Which of the following is a characteristic of monopolistic competition?

- (A) There are substantial barriers to entry.
- (B) There is product differentiation.
- (C) A single firm produces the entire industry output.
- (D) Each firm's demand curve is horizontal at the market price.

15.



In the above diagram, the Phillips curve shows that

- (A) with a change in the level of inflation, unemployment will remain constant.
- (B) a decrease in the level of inflation will lower the level of unemployment.
- (C) there is a certain level of unemployment where prices will actually fall.
- (D) as the level of unemployment changes, prices will remain constant.

16. An example of how automatic stabilisers affect economic activity would be

- (A) the government raising marginal tax rates in order to slow down economic growth during a boom.
- (B) a rise in government expenditure on roads in order to increase the level of employment during a recession.
- (C) slower growth in consumption expenditure as taxpayers move into higher tax brackets as incomes increase.
- (D) an increase in unemployment benefit rates in the Federal Government budget.

**17.** The crowding in effect refers to

- (A) a decrease in the interest rate caused by a balanced budget.
- (B) an increase in the interest rate caused by an increased demand for money.
- (C) an increase in private investment caused by an expansionary fiscal policy.
- (D) a decrease in private investment caused by increased government spending.

**18.** Corporatisation is

- (A) the opening of a public enterprise to private sector ownership.
- (B) the encouragement of private sector enterprises to operate more efficiently by lowering costs and prices.
- (C) the process of improving productivity in government enterprises by ensuring that price covers the costs of production.
- (D) the reforming of government enterprises by removing government benefits and adopting private sector characteristics.

**19.** In the equation  $Y = C + I + G + (X - M)$ , aggregate supply refers to

- (A)  $C + I$
- (B)  $Y - G - I$
- (C)  $Y$
- (D)  $C + I + G$

**20.** Differences in income distribution in Australia indicate that

- (A) single-income households, on average, earn more than two-income households.
- (B) males earn more than females, on average.
- (C) cultural background is irrelevant to income level.
- (D) there are no inequalities in income levels.

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EXAMINER'S USE ONLY

STUDENT NUMBER

Q. 21

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1997  
HIGHER SCHOOL CERTIFICATE EXAMINATION  
ECONOMICS  
2/3 UNIT (COMMON)

CENTRE NUMBER

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SECTION II

Marks

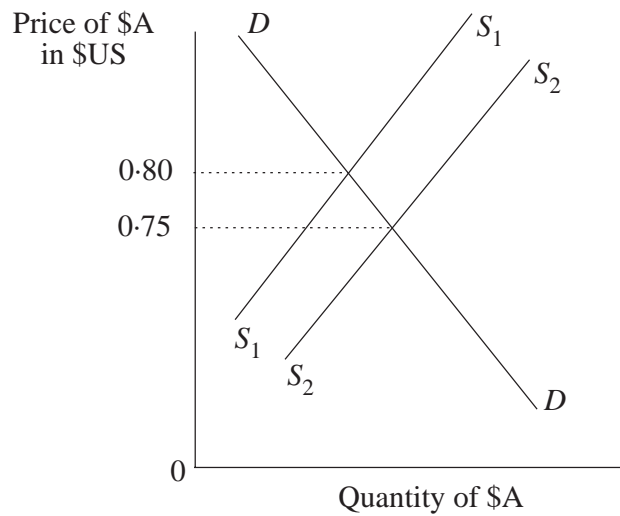
(20 Marks)

Attempt BOTH questions.

Both questions are worth 10 marks.

Answer the questions in the spaces provided in this paper.

21. In the diagram below,  $DD$  is the demand curve for the Australian dollar.  $S_1S_1$  is the supply curve of Australian dollars on day 1, and  $S_2S_2$  is the new supply curve for Australian dollars on day 2.



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

- (a) Explain what is meant by the term 'exchange rate'. 1

.....

.....

.....

21. (Continued) **Marks**
- (b) In the diagram on page 9, what is the exchange rate for the Australian dollar on day 1? **1**
- .....
- (c) Describe TWO factors that could cause the supply of Australian dollars to move from  $S_1S_1$  to  $S_2S_2$ . **2**
- (i) .....
- .....
- (ii) .....
- .....
- (d) What is the likely impact on the components of Australia's merchandise trade as a result of the supply curve shifting from  $S_1S_1$  to  $S_2S_2$ ? **2**
- .....
- .....
- .....
- .....
- (e) Describe and explain TWO possible actions that the Reserve Bank could take if it wished to maintain the exchange rate for the Australian dollar at its level on day 1. **4**
- (i) .....
- .....
- .....
- .....
- .....
- (ii) .....
- .....
- .....
- .....
- .....

**EXAMINER'S USE ONLY**

**STUDENT NUMBER**

Q. 22

**1997  
HIGHER SCHOOL CERTIFICATE EXAMINATION  
ECONOMICS  
2/3 UNIT (COMMON)—SECTION II**

**CENTRE NUMBER**

**Marks**

22. The following table shows the amount of computers and wheat produced by TWO nations, X and Y, using the same quantity of resources.

<i>Nation</i>	<i>Computers</i> (units)	<i>Wheat</i> (units)
<i>X</i>	300	800
<i>Y</i>	200	400

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

- (a) Which nation has the absolute advantage in the production of **1**
- (i) computers? .....
- (ii) wheat? .....
- (b) Outline ONE reason why a nation should specialise in the production of goods in which it has a comparative advantage. **1**
- .....
- .....
- (c) In the production of which good does Nation Y have a comparative advantage? Explain your answer. **2**
- .....
- .....
- .....
- .....
- .....

22. (Continued)

**Marks**

(d) Describe TWO international attempts to promote free trade. **2**

(i) .....  
.....  
.....  
.....

(ii) .....  
.....  
.....  
.....

(e) Outline TWO reasons why nations restrict trade. Discuss the effects of such restrictions. **4**

(i) .....  
.....  
.....  
.....

(ii) .....  
.....  
.....  
.....

**1997  
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.

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

*Unemployment and Inflation in the Australian Economy.*

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

- trends in unemployment and inflation in Australia since 1990, and the reasons for these trends;
- the difficulties of simultaneously reducing unemployment and inflation;
- policy measures the Australian Government could use to lower unemployment and achieve low inflation.

<i>Year ended June</i>	<i>Unemployment rate (%)</i>	<i>Inflation rate (%)</i>	<i>Growth of real output (%)</i>
1990	6.9	7.7	3.3
1991	9.4	3.4	-0.3
1992	11.1	1.2	2.0
1993	11.0	1.7	3.4
1994	9.9	1.7	3.9
1995	8.3	4.5	3.5
1996	8.3	3.1	4.4

*Reserve Bank Bulletin*, AGPS December 1996  
Courtesy the Reserve Bank of Australia.

In the second half of 1994, when a rise in inflation threatened, monetary policy was tightened three times. These tightenings helped keep inflation to modest levels, thus allowing the economy to remain on a sustainable growth path. Over the past six months, with a pronounced fall in inflation in prospect, monetary policy has now been eased three times.

I. J. MACFARLANE, *Reserve Bank Governor*, December 1996

OR

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

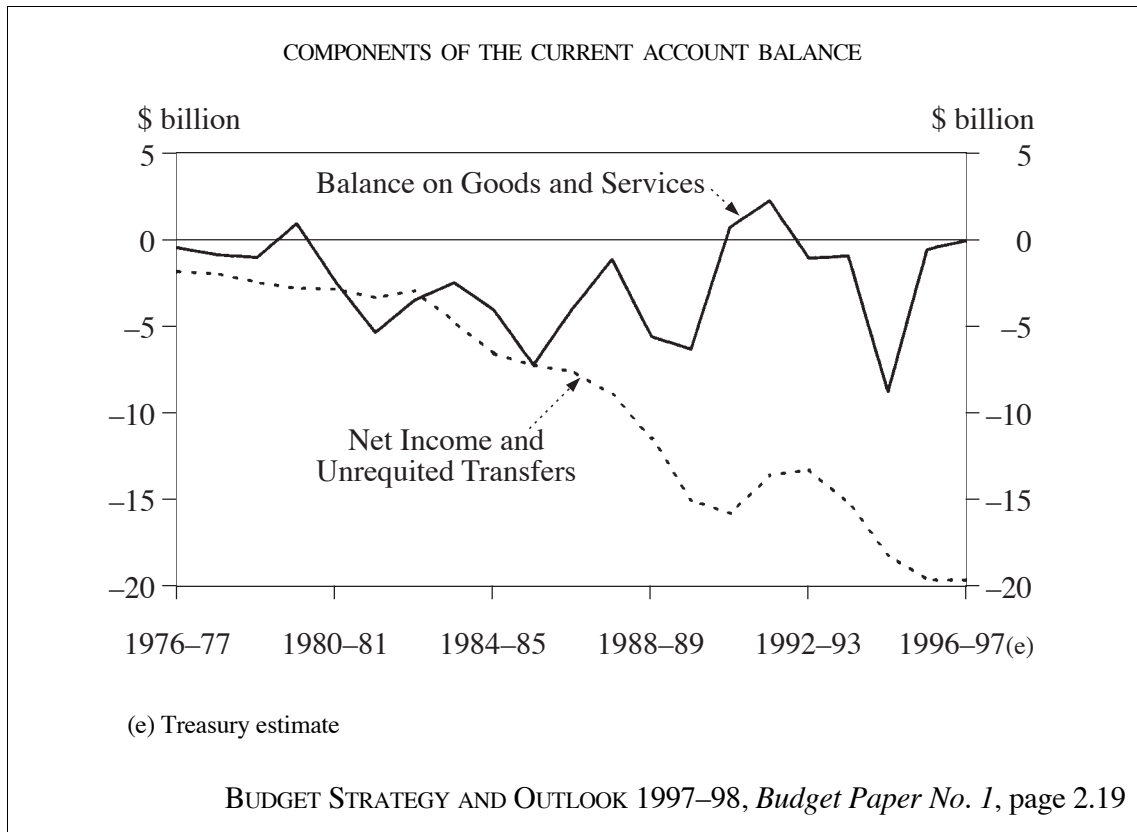
*Fiscal Policy in Australia.*

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

- the meaning of fiscal policy;
- the current role fiscal policy plays in attempting to solve Australia's current account and external debt problems;
- the problems associated with this current role.

A central plank of the Government's economic strategy is to put in place policies to lift national saving to a level adequate to finance national investment without having to rely excessively on foreign saving . . . Policy priorities in this area encompass fiscal consolidation measures to increase public saving at the Commonwealth level.

BUDGET STRATEGY AND OUTLOOK 1997-98, *Budget Paper No.1*, page 1.8



**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. What are the determinants of the supply of labour to firms and the economy as a whole? Discuss how participation rates can affect this supply of labour. Explain government policies that have affected labour supply over the last few years.

*OR*

26. Outline current government labour market policy. How has this policy affected the role of institutions in the labour market? Discuss the implications of this policy on wage and employment outcomes.

**INDUSTRY ECONOMICS***EITHER*

27. Why is there a high degree of seller concentration in many Australian markets? What problems may arise from highly concentrated markets? Explain how government policy may lead to reduced seller concentration. Use examples to illustrate your answer.

*OR*

28. Outline the pricing and output policy for a firm maximising profit in monopolistic competition. How does this policy differ from that of a monopolist? Explain why and how governments might influence the pricing and output decisions of firms in less than perfectly competitive markets.

**DEVELOPMENT ECONOMICS***EITHER*

29. Outline problems faced by developing nations in attaining higher standards of living. Discuss TWO strategies by which economic development can be achieved. Explain the costs and benefits of economic development.

*OR*

30. What are the main differences between developed and developing nations? To what extent can the differences in the economic performance of these two groups be explained by problems specific to the developing nations? How can global equality be promoted? Use examples to illustrate your answer.



## **ECONOMICS OF PRIMARY INDUSTRIES**

*EITHER*

- 31.** What is the contribution of primary industries to the Australian economy? Explain the domestic and international problems that confront Australia's primary industries. Discuss government policies designed to overcome these problems.

*OR*

- 32.** Why do the prices of agricultural products tend to be unstable? What are the implications of this price instability for the agricultural sector and for the economy as a whole? How could the Australian Government stabilise agricultural prices? Use examples to illustrate your answer.

## **DISTRIBUTION OF INCOME AND WEALTH**

*EITHER*

- 33.** Describe the distribution of income in Australia. How do market factors influence this distribution? What are the arguments for and against governments attempting to influence the distribution of income?

*OR*

- 34.** How can poverty be measured? What groups are most likely to be affected by poverty? Discuss the policies available to governments to reduce poverty. What problems are associated with such policies?

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