

HIGHER SCHOOL CERTIFICATE EXAMINATION

1998
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.
- Complete your answers in blue or black pen, or 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.

Complete your answers in blue or black pen, or in pencil on the Answer Sheet provided.

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

1. One advantage of free trade would be
 - (A) an increase in government tariff revenue.
 - (B) a decrease in import licensing.
 - (C) an improvement in the allocation of resources.
 - (D) the protection of import competing industries.

2. Which of the following is a characteristic of a monopoly?
 - (A) Resource allocation is always efficient.
 - (B) Price and output can be controlled at the same time.
 - (C) There are no close substitutes for the monopolist's product.
 - (D) The firm is a price-taker.

3. The Consumer Price Index in year 1 is 125 and in year 2 is 130. The rate of inflation between year 1 and year 2 is
 - (A) 3.8%
 - (B) 4.0%
 - (C) 5.0%
 - (D) 30.0%

4. A rise in the value of Australia's imports relative to its exports will, other things being equal,
 - (A) decrease Australia's public sector borrowings.
 - (B) decrease Australia's holdings of foreign exchange.
 - (C) improve Australia's trade-weighted index.
 - (D) improve Australia's current account.

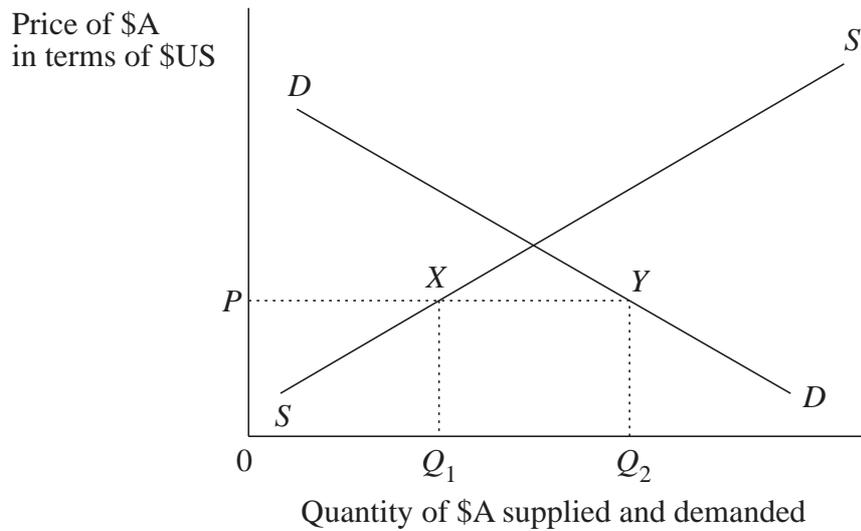
5. The following table shows the labour force data for a nation.

	<i>No. of persons</i>
Employment:	
full-time	120 000
part-time	62 000
Unemployment	18 000
Job vacancies	6 000

The unemployment rate in this nation is

- (A) 3%
 - (B) 9%
 - (C) 10%
 - (D) 15%
6. The structural deficit refers to
- (A) the size of the government's budget deficit after allowance has been made for the level of economic activity.
 - (B) the size of the government's budget deficit after allowance has been made for the introduction of new taxes.
 - (C) that part of the government's budget deficit that indicates how much interest rates will change.
 - (D) that part of the government's budget deficit that must be financed by government borrowing.
7. A \$2 tax imposed on petrol will increase the price of petrol by
- (A) \$2, if the supply curve slopes up to the right and the demand curve slopes down to the right.
 - (B) less than \$2, if the supply curve is horizontal and the demand curve slopes down to the right.
 - (C) more than \$2, if the demand curve is horizontal and the supply curve slopes up to the right.
 - (D) less than \$2, if the supply curve slopes up to the right and the demand curve slopes down to the right.

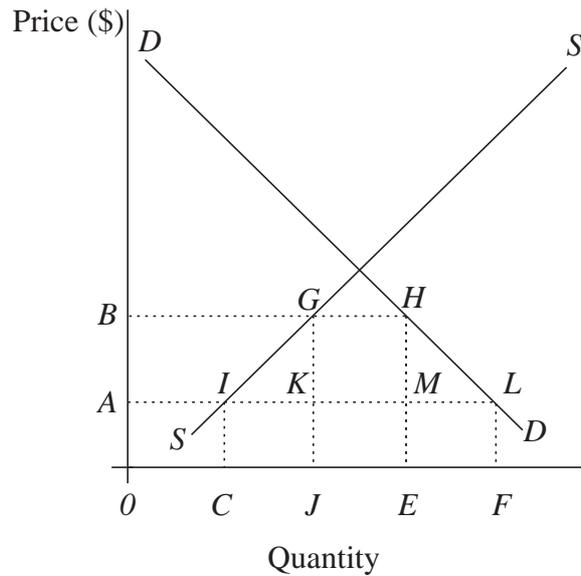
8. The diagram below shows the market for Australian dollars in terms of US dollars.



Assuming a floating exchange rate, at price OP , XY represents a

- (A) shortage of Australian dollars which will cause the Australian dollar to appreciate.
 - (B) shortage of Australian dollars which will cause the Australian dollar to depreciate.
 - (C) surplus of Australian dollars which will cause the Australian dollar to appreciate.
 - (D) surplus of Australian dollars which will cause the Australian dollar to depreciate.
9. Which of the following statements could be described as an example of supply-side economics?
- (A) Increases in transfer payments by the government are a means of raising living standards.
 - (B) Expansionary fiscal policy is required to move the economy to a situation of full employment.
 - (C) Growth of the economy is mainly determined by growth in aggregate demand for its output.
 - (D) Income tax cuts will increase incentives to work and therefore increase the level of employment.

10.



If the government imposes a tariff on a product, raising the price from OA to OB , the total domestic producer revenue is now represented by the area

- (A) $OBGJ$
 - (B) $ABGK$
 - (C) $KGHM$
 - (D) $OALF$
11. An increase in unemployment, other things being equal, could affect economic activity by
- (A) decreasing government transfer payments.
 - (B) increasing inflationary expectations.
 - (C) decreasing private consumption.
 - (D) improving living standards.
12. High barriers to entry in a market will usually
- (A) encourage more firms to enter the industry.
 - (B) occur in perfectly competitive industries.
 - (C) lead to market failure.
 - (D) occur in oligopolistic industries.

13. The following table shows the quantity of milk and bread produced by two nations, using the same quantity of resources.

	<i>Milk</i> (Units)	<i>Bread</i> (Units)
<i>Nation A</i>	200	100
<i>Nation B</i>	125	75

Nation A has

- (A) an absolute advantage in the production of bread only.
 - (B) an absolute advantage in the production of milk only.
 - (C) a comparative advantage in the production of bread.
 - (D) a comparative advantage in the production of milk.
14. An example of hidden unemployment occurs where
- (A) the skills of the unemployed do not match the skills required in available jobs.
 - (B) workers have been laid off by factory closures.
 - (C) there is a rise in the rate of unemployment as the rate of inflation falls.
 - (D) the unemployed no longer seek work because of a deterioration in the job market.
15. Allocative efficiency refers to
- (A) the level of producer satisfaction obtained from a nation's output.
 - (B) the level of resources devoted by a business to research and development, so as to improve product quality.
 - (C) the value of the output forgone in one industry compared to the value of output gained in another industry.
 - (D) the amount of output produced from resources with minimal costs of production.
16. If aggregate demand is greater than aggregate supply, other things being equal, the level of
- (A) economic activity is likely to fall.
 - (B) unemployment is likely to rise.
 - (C) inflation is likely to rise.
 - (D) imports is likely to fall.

17. A factor that usually causes an increase in the volume of imports is
- (A) a decrease in exports.
 - (B) a depreciation of the \$A.
 - (C) a deterioration in the terms of trade.
 - (D) an increase in economic growth.
18. The combination of fiscal and monetary policies that would most likely contract the domestic economy in the short run is
- (A) an increase in the budget surplus and an increase in interest rates.
 - (B) an increase in the budget surplus and a decrease in interest rates.
 - (C) a reduction in the budget surplus and a decrease in interest rates.
 - (D) a reduction in the budget surplus and an increase in interest rates.
19. The removal of a car's pollution control system in order to improve the car's fuel economy creates
- (A) a technical efficiency.
 - (B) an externality.
 - (C) a public good.
 - (D) a merit good.
20. Cost inflation occurs when there is
- (A) an increase in the prices of raw materials resulting in an increase in the price of final goods.
 - (B) an increase in the demand for products resulting in an increase in the price of final goods.
 - (C) an increase in the level of consumption resulting in an increase in the price of final goods.
 - (D) an increase in the supply of final goods resulting in an increase in the price of final goods.

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MARKER'S USE ONLY

STUDENT NUMBER

**1998
HIGHER SCHOOL CERTIFICATE EXAMINATION
ECONOMICS
2/3 UNIT (COMMON)**

CENTRE NUMBER

SECTION II

Marks

(20 Marks)

Attempt BOTH questions.

Each question is worth 10 marks.

Answer the questions in the spaces provided in this paper.

- 21. The following table shows a nation's import price index and export price index over three years.

<i>Year</i>	<i>Import price index</i>	<i>Export price index</i>
1	100	100
2	130	104
3	160	120

- (a) Using the data above, calculate the Terms of Trade index in year 2. **1**

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- (b) State the trend in the nation's Terms of Trade over the three-year period. **1**

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21. (Continued)

Marks

- (c) (i) Explain how the trend in the nation's Terms of Trade, as indicated by the table, could affect the nation's imports. **2**

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- (ii) Explain how the trend in the nation's Terms of Trade, as indicated by the table, could affect the nation's exports. **2**

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- (d) Explain TWO ways in which Australia's export base contributes to Australia's current account deficit problems. **4**

- (i)
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-
-
-

- (ii)
-
-
-
-
-

MARKER'S USE ONLY

STUDENT NUMBER

**1998
HIGHER SCHOOL CERTIFICATE EXAMINATION
ECONOMICS
2/3 UNIT (COMMON)—SECTION II**

CENTRE NUMBER

22. The following table shows two different possible tax schemes.

Marks

TOTAL TAXABLE INCOME	TAX SCHEME A	TAX SCHEME B
(\$)	<i>Tax payable</i> (\$)	<i>Tax payable</i> (\$)
2 000	160	100
4 000	400	200
6 000	720	300
8 000	1 120	400
10 000	1 660	500

(a) Using the above table, calculate:

- (i) the average rate of taxation in tax scheme *B* when the total taxable income is \$4000; **1**

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- (ii) the marginal rate of taxation in tax scheme *A* when the total taxable income is between \$4000 and \$6000. **1**

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Question 22 continues on page 12

22. (Continued)

Marks

(b) State whether each of the tax schemes set out in the table is proportional, regressive or progressive.

(i) Tax scheme *A*

1

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(ii) Tax scheme *B*

1

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(c) Assume that the nation changes from tax scheme *A* to tax scheme *B*. Explain equity issues associated with this change.

2

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(d) Explain TWO economic consequences of broadening Australia's tax base.

4

(i)

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(ii)

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**1998
HIGHER SCHOOL CERTIFICATE EXAMINATION
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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.

Please turn over

EITHER

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

Australia's Economic Growth.

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

- the meaning of economic growth;
- arguments for sustaining a high level of economic growth in the Australian economy;
- the role played by monetary and fiscal policies in promoting and maintaining economic growth;
- internal and external economic constraints to achieving sustainable high economic growth.

The latest available data suggest that the expansion is continuing, with signs that employment growth may be starting to respond to the firmer trend in production. If so, the resulting growth in household incomes will support ongoing growth in consumption.

Reserve Bank Bulletin, November 1997, page 19

SELECTED ECONOMIC INDICATORS—AUSTRALIA

<i>Year ended June</i>	<i>Interest rate (cash rate) (%)</i>	<i>Budget deficit (-) surplus (+) (\$m)</i>	<i>Inflation rate (CPI) (%)</i>	<i>Unemploy- ment rate (%)</i>	<i>Economic growth rate at constant prices (%)</i>
1991	10.50	-1.9	5.3	9.4	-0.3
1992	6.50	-9.3	1.9	11.1	2.0
1993	5.25	-14.5	1.9	11.0	3.4
1994	4.75	-13.7	1.7	9.9	3.9
1995	7.50	-11.6	2.5	8.3	3.5
1996	7.50	-5.0	3.9	8.3	4.4
1997	5.50	+2.5	0.3	8.7	3.8

Adapted from *Reserve Bank Bulletins, 1991–1997*

OR

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

Australian Microeconomic Reform.

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

- the meaning of microeconomic reform;
- the objectives of competition policy;
- microeconomic reforms that have occurred in Australia during the last decade;
- industries and sectors that face future microeconomic reform and structural change.

National competition policy establishes processes and institutions to encourage competition across the whole economy, not just in particular sectors. It has . . . the potential to trigger reform initiatives for many years to come. The initial focus has been in sectors such as electricity, gas, water and road transport and government business enterprises, with the reforms then being addressed in Government trading entities, the professions and other entities such as the statutory marketing authorities.

Competition policy is not about competition for competition sake, it is a means to other ends.

REPORT FROM THE HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON FINANCIAL INSTITUTIONS AND PUBLIC ADMINISTRATION. *Cultivating Competition: Inquiry into Aspects of the National Competition Policy Reform Package, June 1997, pp. 1–2.* Commonwealth of Australia copyright reproduced by permission. Reserve Bank Bulletins – Various 1991–97

ESTIMATED ANNUAL LONG-TERM GAINS FROM
NATIONAL COMPETITION POLICY REFORMS

Real GDP	5.5 per cent p.a.	Commonwealth Govt. Revenue	\$5.9 billion
Real consumption	\$9 billion p.a.	Real wages	3 per cent
Employment	30 000 more jobs	State, Territory, Local Govt. Revenue	\$3 billion

INDUSTRY COMMISSION, *The Growth and Revenue Implications of Hilmer and Related Reforms*, March 1995, page 82
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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. Using supply and demand theory, examine how the size and the quality of the labour market are determined. Explain why governments might want to intervene in the labour market. In your answer, refer to current Australian government labour market policy.

OR

26. Outline the role of employer organisations, employee organisations, and the legal system in the current Australian labour market. Discuss the changing significance of these institutions in the Government's labour market policy.

INDUSTRY ECONOMICS

EITHER

27. Outline the structure of an oligopolistic market. Explain how this structure affects the conduct of firms in this type of market. Why are so many Australian markets oligopolistic? How have governments attempted to make these markets more competitive in recent times?

OR

28. Explain how the conduct and the performance of a monopoly market differs from that of a perfectly competitive market. How does price discrimination affect the conduct and performance of a monopoly?

DEVELOPMENT ECONOMICS

EITHER

29. Outline the problems in promoting global equality. How may rich nations inhibit the growth of poor nations? Discuss the factors that have caused imbalances in development between these nations.

OR

30. How is economic growth measured? What are the sources of growth for a nation? Examine the strategies that a nation may use to promote growth and development. Use examples to illustrate your answer.

ECONOMICS OF PRIMARY INDUSTRIES

EITHER

31. Outline the importance of either the agricultural industry or the mining industry to the Australian economy. What are the issues facing this industry at present? Discuss policies that the Government could employ to address these issues.

OR

32. What are the main domestic and international problems faced by Australia's primary producers in recent years? Discuss the possible impact of changes in Australia's exchange rate on the primary sector.

DISTRIBUTION OF INCOME AND WEALTH

EITHER

33. What is meant by the term wealth? Describe the distribution of wealth in Australia. Discuss the institutional and social factors that influence this distribution of wealth.

OR

34. Why do governments attempt to redistribute income? What policies are available to change income distribution? Explain the problems associated with implementing such policies.

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