

BOARD OF STUDIES
NEW SOUTH WALES

HIGHER SCHOOL CERTIFICATE EXAMINATION

1999

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 either blue or black pen 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.

Instructions for answering multiple-choice questions

- Complete your answers in either blue or black pen.
- Select the alternative A, B, C or D that best answers the question. Fill in the response oval completely.

Sample: $2 + 4 =$ (A) 2 (B) 6 (C) 8 (D) 9
A B C D

If you think you have made a mistake, put a cross through the incorrect answer and fill in the new answer.

A B C D

If you change your mind and have crossed out what you consider to be the correct answer, then indicate the correct answer by writing the word **correct** and drawing an arrow as follows.

A B C D
correct
↙

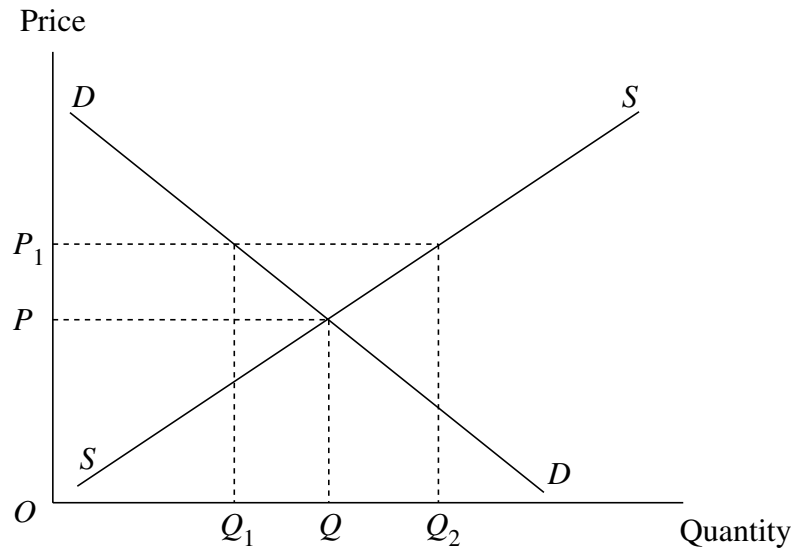
- 1 What is the cause of cyclical unemployment?
 - (A) A low level of aggregate demand
 - (B) A lack of skills on the part of the unemployed
 - (C) An excessive level of real wages
 - (D) An increase in the level of technology

- 2 Which one of the following best describes the Terms of Trade?
 - (A) Agreements between nations on the trade of goods and services
 - (B) Relative price movements in exports and imports
 - (C) Revenue gained from trading goods and services
 - (D) The quantity of imports demanded and exports supplied

- 3 Which one of the following is an aim of microeconomic policy?
 - (A) To improve the efficiency of supply
 - (B) To increase barriers to entry
 - (C) To slow down structural change
 - (D) To encourage monopolies

- 4 Economic growth measures the change over time in
 - (A) unemployment.
 - (B) real output.
 - (C) foreign debt.
 - (D) prices.

- 5 Question 5 refers to the diagram showing the market for a specific good.



According to the diagram, at price OP_1

- (A) the market is in equilibrium.
 - (B) there is a shortage of supply relative to demand.
 - (C) a minimum price control could exist.
 - (D) a maximum price control could exist.
- 6 The following table shows the maximum alternative output of computers and television sets of two nations, using their resources efficiently.

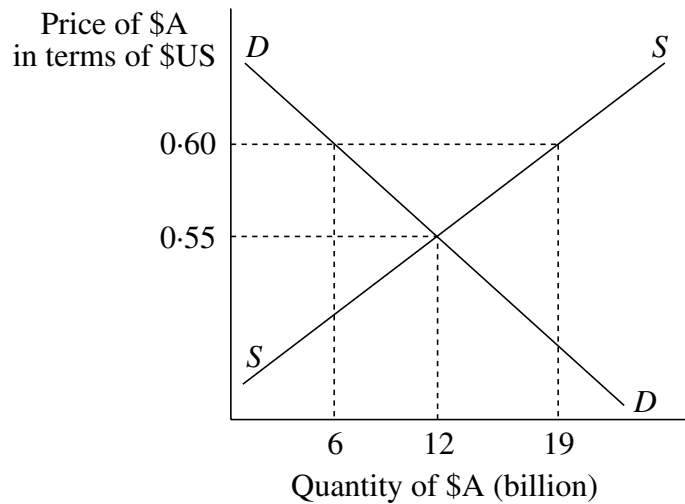
	<i>Computers</i>	<i>Television sets</i>
Nation A	12 000	4 000
Nation B	8 000	2 000

According to this information, Nation A has

- (A) an absolute advantage in computers only.
- (B) an absolute advantage in television sets only.
- (C) a comparative advantage in computers.
- (D) a comparative advantage in television sets.

- 7** The infant industry argument states that
- (A) newly formed industries need to be protected from import competition.
 - (B) free trade is likely to have beneficial effects on small, newer industries.
 - (C) smaller industries are able to exploit economies of scale.
 - (D) protection of small import-competing industries is likely to lead to trade sanctions.
- 8** Which one of the following is a feature of privatisation?
- (A) Reducing government subsidies
 - (B) Subsidising private industries
 - (C) Assisting public industries
 - (D) Selling government enterprises
- 9** Which of the following is most likely to provide the greatest stimulus to domestic employment and output in the short run?
- (A) Increased interest rates, decreased income tax rates, and increased government expenditure
 - (B) Decreased interest rates, increased income tax rates, and decreased government expenditure
 - (C) Increased interest rates, increased income tax rates, and decreased government expenditure
 - (D) Decreased interest rates, decreased income tax rates, and increased government expenditure
- 10** A budget deficit can be financed by
- (A) buying Australian dollars.
 - (B) adopting expansionary fiscal policy.
 - (C) selling government bonds to the public.
 - (D) increasing revenue from direct taxation.

- 11 The diagram below shows the demand and supply for the Australian dollar.



If the Reserve Bank wishes to raise the exchange rate from $\$A1 = \$US0.55$ to $\$A1 = \$US0.60$, then it must

- (A) buy \$A7 billion.
 (B) sell \$A7 billion.
 (C) sell \$A13 billion.
 (D) buy \$A13 billion.
- 12 In a recession, the effect of automatic stabilisers would be to increase
- (A) government expenditure on capital works.
 (B) the level of portfolio investment.
 (C) income tax revenue.
 (D) expenditure on transfer payments.
- 13 A depreciation of the Australian dollar assists import competing firms when
- (A) imports are relatively price elastic.
 (B) the number of import competing firms is reduced.
 (C) the costs of import competing firms increase.
 (D) imports are relatively price inelastic.

- 14 A rise in aggregate demand will tend to
- (A) reduce employment of resources.
 - (B) increase the level of saving.
 - (C) reduce taxation revenue.
 - (D) increase transfer payments.
- 15 According to the Phillips curve, a decrease in the rate of inflation will
- (A) increase the size of the budget deficit.
 - (B) create a higher level of stagflation.
 - (C) increase the rate of unemployment.
 - (D) create a more equitable distribution of income.
- 16 The following table shows Balance of Payments data for a nation with a floating exchange rate.

	\$ m
Goods credits	81 000
Goods debits	-79 000
Income and current transfers	-19 000
Capital and financial account balance	16 700
Net errors and omissions	0

Calculate the value of net services.

- (A) \$33 700 m
- (B) \$300 m
- (C) -\$300 m
- (D) -\$33 700 m

Please turn over

- 17 An increase in the size of the Public Sector Borrowing Requirement would most likely
- (A) increase the budget surplus.
 - (B) reduce the current account deficit.
 - (C) reduce public sector debt.
 - (D) increase interest rates.

- 18 Consider the following table.

<i>Year</i>	<i>Consumer price index</i>
1	200
2	210

The annual inflation rate for Year 2 is

- (A) 2%
 - (B) 5%
 - (C) 10%
 - (D) 21%
- 19 If the marginal rate of taxation rises as income rises, the tax scheme is
- (A) proportional.
 - (B) regressive.
 - (C) progressive.
 - (D) indirect.
- 20 Fiscal policy can be implemented through changes in
- (A) government spending and revenue.
 - (B) interest rates and money supply.
 - (C) the current account deficit and external debt.
 - (D) wage and employment levels.

MARKER'S USE ONLY

STUDENT NUMBER

1999
HIGHER SCHOOL CERTIFICATE EXAMINATION
ECONOMICS
2/3 UNIT (COMMON)

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 The table below gives selected economic data for a country.

<i>Year</i>	<i>% change in real output on previous year</i>	<i>Consumer price index</i>	<i>Employed persons (million)</i>	<i>Unemployed persons (million)</i>
1	3.9	100	45.0	3.0
2	4.5	106	46.0	2.0
3	3.5	110	46.5	2.5
4	2.0	111	46.0	4.0
5	1.8	112	45.5	4.5

(a) Calculate the unemployment rate in Year 4. **1**

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(b) Which year had the highest annual inflation rate? **1**

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Question 21 continues on page 10

21 (Continued)

Marks

- (c) With reference to the table, state TWO pieces of evidence that indicate that Year 2 was a period of relatively high economic activity. **2**

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- (d) With reference to the table, suggest ONE reason for the change in the level of unemployment between Years 4 and 5. **2**

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- (e) Briefly explain ONE macroeconomic and ONE microeconomic policy response that could have been used to increase economic activity between Years 4 and 5.

- (i) Macroeconomic policy response **2**

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- (ii) Microeconomic policy response **2**

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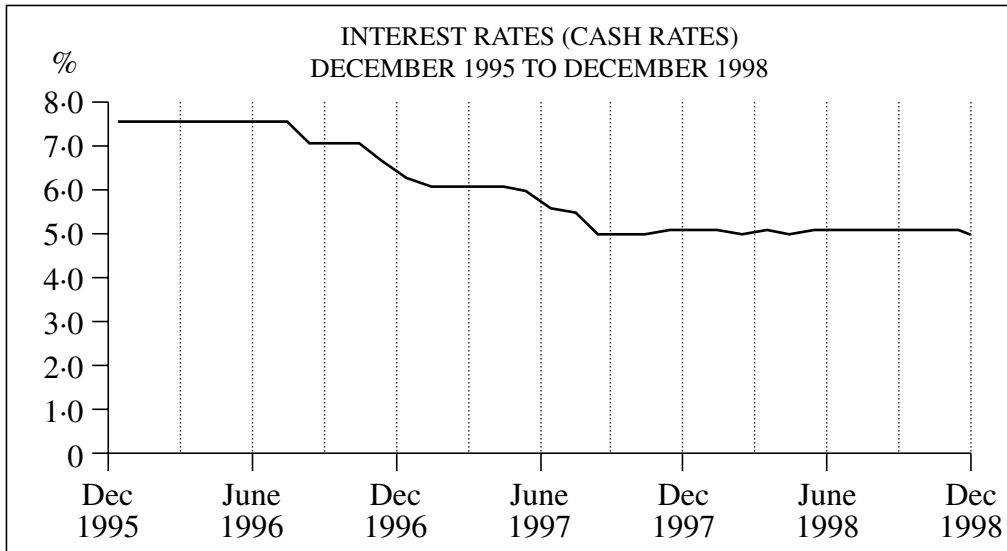
MARKER'S USE ONLY

STUDENT NUMBER

**1999
HIGHER SCHOOL CERTIFICATE EXAMINATION
ECONOMICS
2/3 UNIT (COMMON)—SECTION II**

CENTRE NUMBER

22



Adapted from *Reserve Bank of Australia Bulletin*, December 1998

The past year has seen an unusual degree of turmoil in international financial markets, but the underlying trend in the international economy has been towards lower growth, lower inflation and lower world interest rates . . . In the medium term, Australian monetary policy aims to achieve an average inflation rate of somewhere between 2 and 3 per cent. Inflation has recently been running below 2 per cent . . . To date, domestic economic activity has continued to expand at a solid pace, in part reflecting the supportive stance of monetary policy: interest rates faced by borrowers are near thirty-year lows.

Reserve Bank of Australia Bulletin, December 1998

Question 22 continues on page 12

22 (Continued)

Marks

- (a) According to the graph, what was the level of interest rates in June 1998 (to the nearest whole number)? **1**

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- (b) Suggest ONE possible reason for the trend in the level of interest rates shown in the graph between December 1995 and December 1998. **1**

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- (c) Suggest TWO benefits for the Australian economy of the trend in the level of interest rates shown in the graph. **2**

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- (d) How does the Reserve Bank influence the level of interest rates in Australia? **3**

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- (e) Why does the Reserve Bank attempt to influence the level of interest rates in Australia? **3**

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1999
HIGHER SCHOOL CERTIFICATE EXAMINATION
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.

Please turn over

EITHER

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

Australia's Current Account and External Debt

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

- the economic factors that influence the current account deficit;
- the relationship between the current account deficit and the external debt;
- macroeconomic and microeconomic policies that can be used to address problems with the current account and external debt.

The external environment remains the major source of uncertainty. Exports have been a drag on growth during the past year, primarily reflecting declines in exports to east Asia. . . . Given the weaker external outlook and resultant uncertainties for the domestic economy, it is likely that overall growth in the Australian economy will decline over the year ahead.

Reserve Bank Bulletin, November 1998

<i>Year</i>	<i>Current Account Balance (\$ m)</i>	<i>Net External Debt (\$ m)</i>
1995/1996	-21 802	194 731
1996/1997	-17 233	213 479
1997/1998	-23 264	222 403

Reserve Bank Bulletin, December 1998

EXCHANGE RATES: SELECTED CURRENCIES (Units of foreign currency per \$A)				
<i>Year</i>	<i>Japanese (yen)</i>	<i>United States (dollar)</i>	<i>Indonesian (rupiah)</i>	<i>Malaysian (ringgit)</i>
1996/1997	85.20	0.7455	1812.3	1.8816
1997/1998	86.16	0.6135	9125.8	2.5614

Reserve Bank Bulletin, January 1999

OR

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

Australia's Economic Performance

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

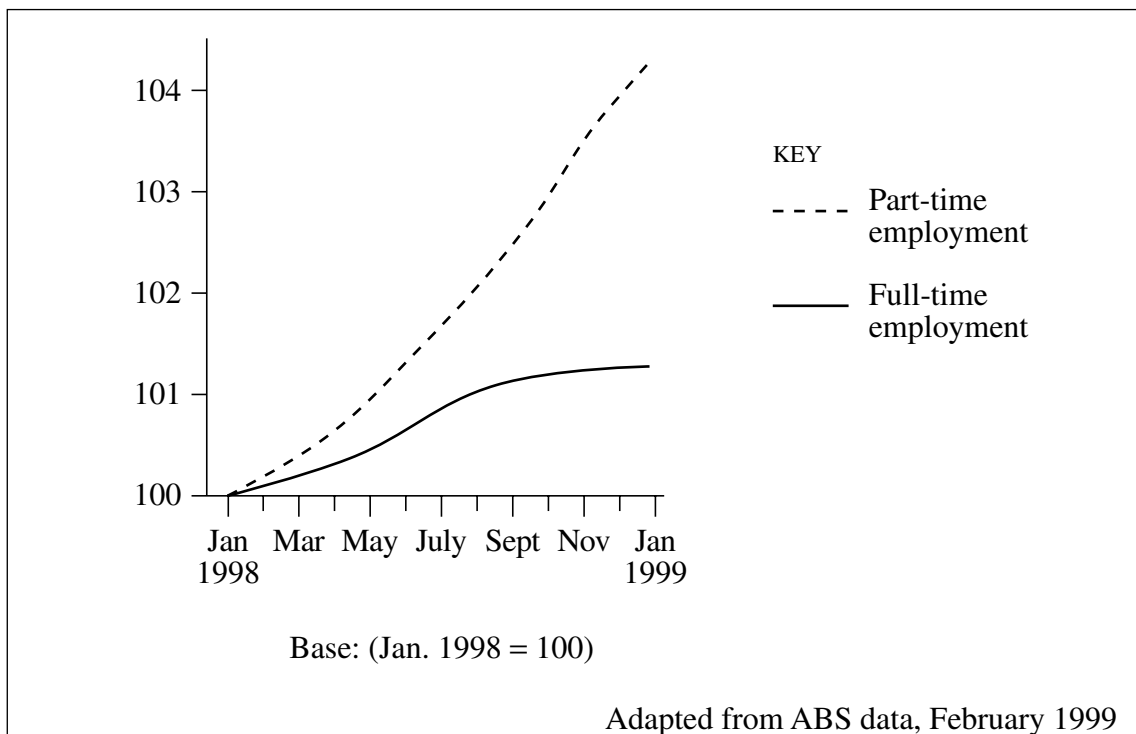
- indicators of Australia's economic performance;
- factors affecting Australia's current economic performance;
- the role of government economic policies in assisting Australia's economic performance;
- the limitations of government economic policies.

To date, solid domestic economic fundamentals have largely offset the sharp deterioration in the external economic environment and the Australian economy posted a robust growth rate of 4.1% in 1997–1998. However, while private spending has remained buoyant, business investment and net exports have slowed markedly.

Despite exporter success to date in diversifying away from depressed Asian markets, net exports will continue to detract from growth in 1998–1999.

Inflationary pressures will remain subdued, despite rising import prices and are expected to be comfortably contained within the Reserve Bank target band over the coming year.

ANZ, *In Business*, Spring 1998



BRW, 22 February 1999

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** How do changes in the level of consumer demand affect the demand for labour in firms and industries in the Australian economy? Discuss the factors currently affecting the level of demand for labour in the Australian economy. Examine the government's policy response to Australia's present level of unemployment.

OR

- 26** Distinguish between wage and non-wage outcomes in the labour market. How are wages currently determined in the Australian economy? Discuss the impact that the present system of wage determination has had on employment outcomes, productivity and international competitiveness in the Australian economy.

INDUSTRY ECONOMICS

EITHER

- 27** Compare the characteristics of perfect competition and monopolistic competition in the short run. Discuss the importance of product differentiation in monopolistic competition. What is the effect of the entry of new firms in each of these market models?

OR

- 28** Why is it important for markets to be competitive? How can government policies affect industry performance in terms of economic efficiency, responsiveness to consumer demand, innovation, and international competitiveness? In your answer, refer to Australian examples.

DEVELOPMENT ECONOMICS

EITHER

- 29** What is the difference between economic growth and economic development? How can governments in developing nations promote their own nation's development? Discuss the advantages and disadvantages of relying on aid from other nations.

OR

- 30** Why is it difficult to compare the standard of living between nations? What role can investment and technology play in increasing economic growth in developing nations? Discuss the possible costs and benefits of economic growth to a developing nation.

ECONOMICS OF PRIMARY INDUSTRIES

EITHER

- 31** Outline the main sources of farm income and costs faced by producers in Australia's agricultural sector. Assess the impact that fluctuations in farm incomes have on manufacturing and service industries, and on the balance of payments. Discuss the policies that government can implement to reduce the impact of these fluctuations.

OR

- 32** Outline the role played by investment and export markets in Australia's mining industry. How does the Australian economy benefit from growth in the mining industry? Discuss the problems that could be associated with increased mining activities.

DISTRIBUTION OF INCOME AND WEALTH

EITHER

- 33** Distinguish between absolute and relative poverty. What factors contribute to the level of poverty in Australia? Discuss the problems associated with government policies aimed at reducing the level of poverty in Australia.

OR

- 34** What are the main sources of income and wealth in Australia? Examine the factors that influence the distribution of income and wealth in Australia. Discuss the problems associated with government policies designed to redistribute income.

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