

B O A R D O F S T U D I E S
NEW SOUTH WALES

2004

HIGHER SCHOOL CERTIFICATE
EXAMINATION

Economics

General Instructions

- Reading time – 5 minutes
- Working time – 3 hours
- Write using black or blue pen
- Board-approved calculators may be used
- Write your Centre Number and Student Number at the top of pages 13, 17, 19 and 21

Total marks – 100

Section I Pages 2–9

20 marks

- Attempt Questions 1–20
- Allow about 35 minutes for this section

Section II Pages 13–22

40 marks

- Attempt Questions 21–24
- Allow about 1 hour and 15 minutes for this section

Section III Pages 23–24

20 marks

- Attempt either Question 25 or Question 26
- Allow about 35 minutes for this section

Section IV Page 25

20 marks

- Attempt either Question 27 or Question 28
- Allow about 35 minutes for this section

Section I

20 marks

Attempt Questions 1–20

Allow about 35 minutes for this section

Use the multiple-choice answer sheet.

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 role of the International Monetary Fund (IMF)?
- (A) To implement and advance global trade agreements
 (B) To settle industrial and trade disputes between members
 (C) To help poorer countries with their economic development
 (D) To maintain international financial stability in global financial markets
- 2 An increase in investment expenditure of \$100m changes the equilibrium level of national income by \$250m. What is the size of the Marginal Propensity to Consume?
- (A) 0.4
 (B) 0.6
 (C) 1.25
 (D) 2.50
- 3 Which of the following is a disadvantage of a decentralised wage determination system?
- (A) An increase in income inequality
 (B) A reduction in the rate of structural change
 (C) A reduction in the accumulation of wealth
 (D) An increase in government control over wages
- 4 The table shows selected data for a nation.

<i>Year</i>	<i>Export price index</i>	<i>Import price index</i>
1	100	105
2	107	115
3	116	118
4	120	124

In which year were fewer exports required to pay for the same volume of imports?

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

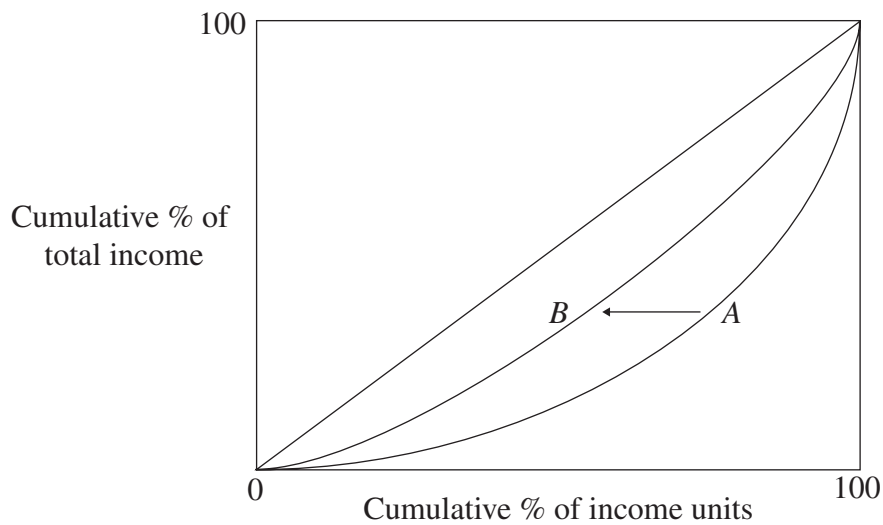
5 The table shows selected data for an economy.

<i>Year</i>	<i>Money gross domestic product (GDP) (\$m)</i>	<i>Consumer price index (CPI)</i>	<i>Unemployment rate (%)</i>
1	4000	100	6
2	4200	105	10

From Year 1 to Year 2, which statement is correct concerning this economy?

- (A) Real economic growth is zero and there is a need for expansionary policy.
 - (B) Real economic growth is low and there is a need for expansionary policy.
 - (C) Real economic growth is high and there is a need for contractionary policy.
 - (D) Real economic growth is negative and there is a need for expansionary policy.
- 6 How does the impact of a tariff differ from that of an import quota?
- (A) A tariff disadvantages consumers, while a quota does not.
 - (B) A tariff generates tax revenue to the government, while a quota does not.
 - (C) A tariff encourages increased domestic production, while a quota does not.
 - (D) A tariff affects the domestic price of a commodity, while a quota does not.
- 7 Which of the following is likely to cause a fall in the level of hidden unemployment?
- (A) A rise in the rate of unemployment
 - (B) A rise in the labour force participation rate
 - (C) A rise in the number of discouraged workers
 - (D) A rise in the number of long-term unemployed

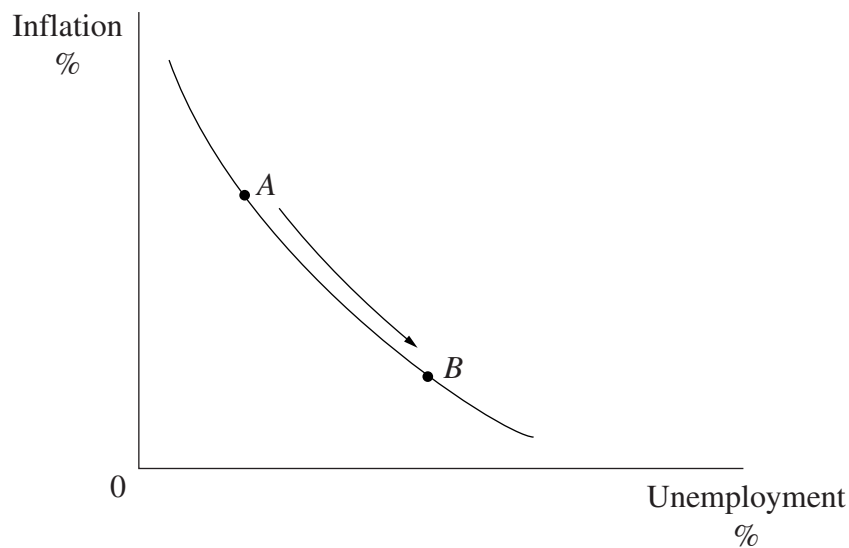
- 8 The diagram shows the movement of the Lorenz curve for a nation over time.



Which of the following could explain the movement of the Lorenz curve from A to B?

- (A) A rise in the Gini coefficient
 - (B) The removal of a tax on wealth
 - (C) An increase in indirect taxes on necessities
 - (D) An increase in transfer payments for low income earners
- 9 Which of the following is a feature of Australia's decentralised wage system?
- (A) The automatic adjustment of wages in line with inflation
 - (B) The involvement of unions in all Workplace Agreements
 - (C) The removal of safety net clauses from Certified Agreements
 - (D) The registration of Australian Workplace Agreements with the Employment Advocate

- 10 The diagram shows a relationship between inflation and unemployment for an economy.



- Which of the following policies would move the economy from *A* to *B*?
- (A) Reduce interest rates and increase income tax rates.
 - (B) Reduce interest rates and decrease income tax rates.
 - (C) Increase interest rates and decrease income tax rates.
 - (D) Increase interest rates and increase income tax rates.
- 11 What would be the effect on the Australian economy of recessions in Australia's major trading partners?
- (A) Higher employment growth and lower export volumes
 - (B) Higher employment growth and higher export volumes
 - (C) Lower employment growth and lower export volumes
 - (D) Lower employment growth and higher export volumes
- 12 Other things being equal, what will be the impact on the Australian economy of a decrease in domestic interest rates?
- (A) Economic activity should increase and the exchange rate should appreciate.
 - (B) Economic activity should increase and the exchange rate should depreciate.
 - (C) Economic activity should decrease and the exchange rate should appreciate.
 - (D) Economic activity should decrease and the exchange rate should depreciate.

- 13 The table shows selected data for an economy.

<i>National income components</i>	(\$ million)
Savings	50
Investment	30
Taxation	40
Exports	50
Government spending	20
Imports	30

Using the information in the table, which statement is correct for this economy?

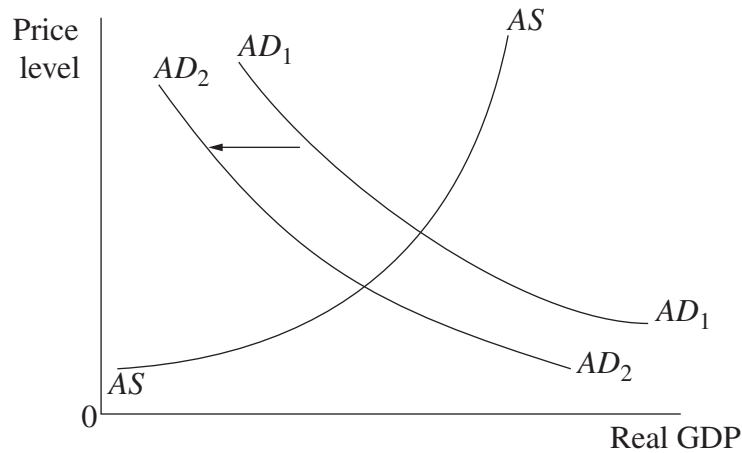
- (A) There is a budget deficit.
 - (B) The economy is in equilibrium.
 - (C) There is a current account deficit.
 - (D) Withdrawals are greater than injections.
- 14 Other things being equal, what will be the impact on the Australian economy of an appreciation of the Australian dollar against other currencies?
- (A) Export prices will rise, import prices will fall and the terms of trade will improve.
 - (B) Export prices will rise, import prices will fall and the terms of trade will deteriorate.
 - (C) Export prices will fall, import prices will rise and the terms of trade will improve.
 - (D) Export prices will fall, import prices will rise and the terms of trade will deteriorate.
- 15 The table shows selected data for an economy which operates with a floating exchange rate.

<i>Item</i>	(\$ billion)
Balance on goods and services	16
Net transfers	2
Net income	?
Capital account	17
Financial account	13

What is the value of Net income for this economy?

- (A) -\$48 billion
- (B) -\$30 billion
- (C) \$12 billion
- (D) \$30 billion

- 16 The following diagram shows aggregate demand and aggregate supply curves for an economy.



Which of the following could cause a shift of the aggregate demand curve from AD_1 to AD_2 ?

- (A) A decrease in the rate of income tax
 - (B) A decrease in the general level of prices
 - (C) An increase in the real level of national income
 - (D) An increase in the general level of interest rates
- 17 The table shows international investment transactions for an economy.

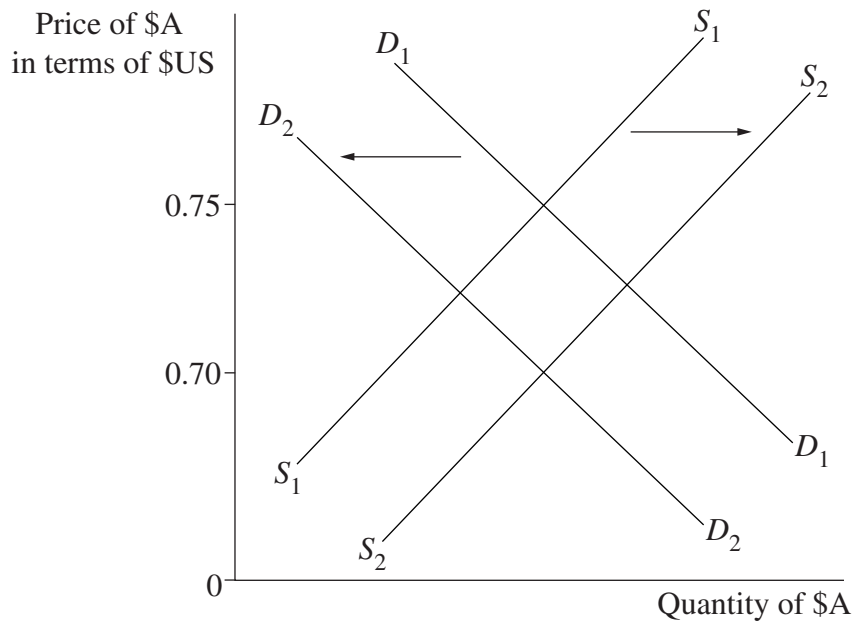
<i>Year</i>	<i>Equity investment abroad (\$ billion)</i>	<i>Foreign liabilities (\$ billion)</i>
1	90	150
2	250	300

From Year 1 to Year 2, which statement is correct for this economy?

- (A) The economy's net foreign debt is increasing.
- (B) Equity investment as a proportion of foreign liabilities is increasing.
- (C) Foreign liabilities are increasing at a greater rate than equity investment.
- (D) The increase in equity investment will worsen the economy's foreign debt.

- 18 If a government budgets for a surplus and there is an unexpected increase in the level of economic activity, which of the following is likely to occur?
- (A) There will be an increase in tax revenues and an increase in the budget surplus.
 - (B) There will be an increase in tax revenues and a decrease in the budget surplus.
 - (C) There will be a decrease in tax revenues and an increase in the budget surplus.
 - (D) There will be a decrease in tax revenues and a decrease in the budget surplus.

19



Assuming a floating exchange rate, which of the following actions by the Reserve Bank of Australia have caused the exchange rate to move from \$US0.75 to \$US0.70?

- (A) Buy Australian dollars and raise Australian interest rates.
 - (B) Buy Australian dollars and lower Australian interest rates.
 - (C) Buy United States dollars and lower Australian interest rates.
 - (D) Sell United States dollars and raise Australian interest rates.
- 20 In which account in Australia's Balance of Payments would Direct and Portfolio investment transactions be recorded?
- (A) The Capital account
 - (B) The Current account
 - (C) The Financial account
 - (D) The Net incomes account

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Economics

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Centre Number

Section II

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Student Number

40 marks

Attempt Questions 21–24

Allow about 1 hour and 15 minutes for this section

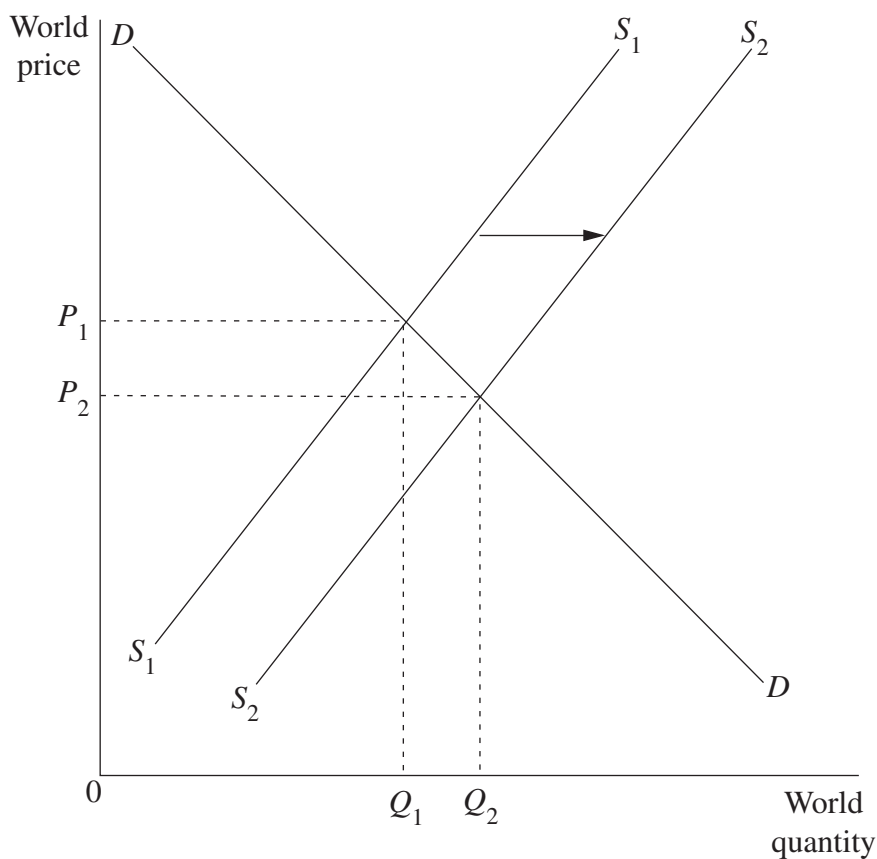
Answer the questions in the spaces provided.

Question 21 (10 marks)

Please turn over

Question 21 (10 marks)

The diagram shows the world market for a commodity after the introduction of a subsidy by a country which is a major world producer.



- (a) Explain why the supply curve shifts from S_1 to S_2 after the subsidy has been introduced. 2

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Question 21 continues on page 15

Question 21 (continued)

- (b) With reference to the diagram, analyse the impact of the subsidy on producers in countries where the subsidy has not been introduced. 4

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- (c) Explain TWO benefits associated with a reduction in global protectionist policies. 4

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End of Question 21

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Economics

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Section II (continued)

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Student Number

Marks

Question 22 (10 marks)

The table gives selected data for an economy.

<i>Year</i>	<i>Working-age population</i>	<i>Employed persons</i>	<i>Unemployed persons</i>	<i>Consumer price index</i>
1	320 000	190 000	10 000	100
2	376 000	198 000	22 000	102
3	410 000	195 500	34 500	103

- (a) Identify the trend in the unemployment rate in this economy over the three-year period. **1**

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- (b) Outline TWO possible causes of the fall in the participation rate for this economy. **2**

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Question 22 continues on page 18

Question 22 (continued)

- (c) For this economy, briefly explain the relationship between the unemployment rate and the inflation rate. 3

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- (d) Using the information in the table, explain how TWO government macroeconomic policies could be used to reduce unemployment in this economy. 4

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End of Question 22

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Section II (continued)

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Question 23 (10 marks)

The following information concerns environmental issues.

Until recently, rapid industrialisation was such a high priority in almost every Asian country that the resulting environmental damage was regarded as a minor inconvenience. However, governments are finally seeing that massive pollution and deforestation hurt their economies and discourage foreign investment in the long run. The Kyoto Protocol, which gives incentives to all countries to cut their greenhouse gas emissions, looks set to give a big push to Asian clean-up efforts.

Adapted from *The Australian Financial Review Fairfax*, 24 October 2003

- (a) Define the term *renewable resource*. 2

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- (b) Distinguish between the private and social costs associated with the logging of rainforests. 3

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Question 23 continues on page 20

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Centre Number

Section II (continued)

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Student Number

Marks

Question 24 (10 marks)

The following information refers to productivity.

Australia . . . has experienced acceleration in its productivity growth over the past decade or so. . . structural reforms [have driven] new work practices and encouraged the rapid uptake of productivity-enhancing information and communications technologies. . . to sustain strong productivity growth, (Australia) will require an environment in which individual firms continue to strive for better products and better ways of doing things and where resources move quickly to exploit good new ideas. Strong competitive pressures are central to this, by providing the incentive for new ideas to be developed, as well as effectively sorting the good from the bad.

Growth Drivers: The Medium to Longer-Term Challenges to Maintain Growth Performance addressed to the Country Forum CFO Forum by Dr Martin Parkinson on the 6th of February 2004 Melbourne, '© Commonwealth of Australia reproduced with permission.'

- (a) Outline TWO economic effects of implementing microeconomic policies. 2

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Question 24 continues on page 22

Question 24 (continued)

- (b) Describe TWO problems associated with structural change in the Australian economy. 3

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- (c) Explain how deregulation may promote productivity growth in the Australian economy. 5

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End of Question 24

Economics

Section III

20 marks

Attempt either Question 25 or Question 26

Allow about 35 minutes for this section

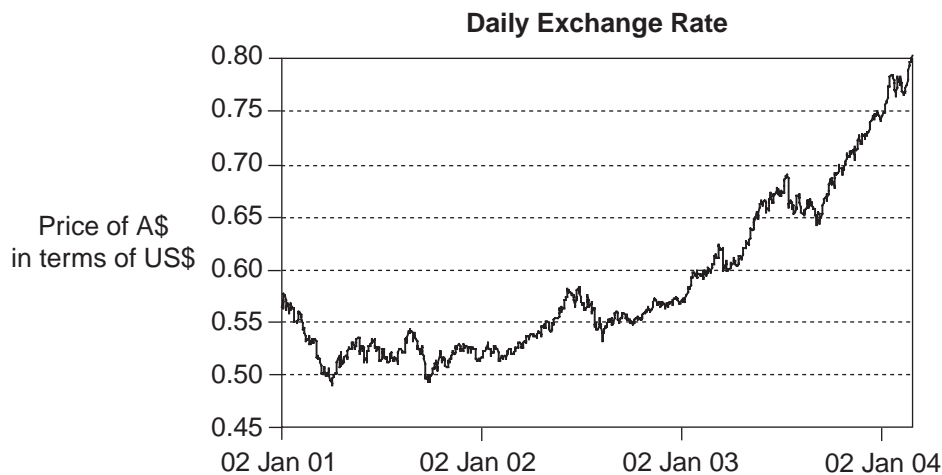
Answer the question in a writing booklet. Extra writing booklets are available.

In your answer you will be assessed on how well you:

- use your knowledge and the economic information provided
- apply economic terms, concepts, relationships and theory
- present a sustained, logical and well-structured answer to the question

Question 25 (20 marks)

Analyse the effects of changes in the exchange rate of the Australian dollar (against other currencies) on the Australian economy.



Source: Reserve Bank of Australia, 2004

The main source of risk to the export outlook apparent in the recent period has been associated with the appreciation of the exchange rate, and particularly the rapid appreciation that took place during 2003 and into the early weeks of this year. Had it continued, this posed the risk of significantly dampening the effects of the global recovery on Australia's export performance. But, with the exchange rate having drifted lower recently and the prospect of US interest rates starting to return to normal, this risk now seems less severe than a few months ago.

[The Reserve Bank Board], following the two increases in the cash rate at the end of 2003 . . . considered at its subsequent monthly meetings whether there was a case to increase rates further . . .

Adapted from *Statement on Monetary Policy*,
© Reserve Bank of Australia, May 2004

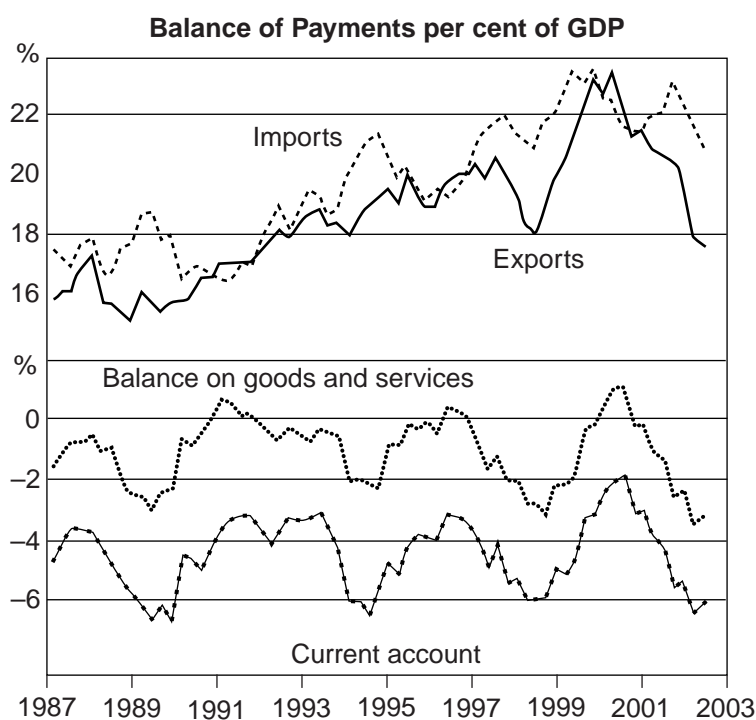
OR

In your answer you will be assessed on how well you:

- use your knowledge and the economic information provided
 - apply economic terms, concepts, relationships and theory
 - present a sustained, logical and well-structured answer to the question
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Question 26 (20 marks)

Analyse the causes of Australia's on-going current account deficit and its effects on external stability.



Source: Reserve Bank of Australia, 2004

If Australia is to reduce both its current account deficit and its net foreign debt then progress needs to be made simultaneously on two fronts. First, exports have to grow faster than imports. Second, there needs to be a corresponding increase in savings so that more of our investment is financed from domestic savings rather than by borrowing from overseas. Without an increase in savings, any income gain from a rise in exports will be lost to an increase in expenditure on imports.

Excerpt from *Research Note 40*,
from Parliamentary Library

Merchandise Trade and Balance on goods and services, current account,
ABS data used with permission from the Australian Bureau of Statistics

Section IV

20 marks

Attempt either Question 27 or Question 28

Allow about 35 minutes for this section

Answer the question in a SEPARATE writing booklet. Extra writing booklets are available.

In your answer you will be assessed on how well you:

- use economic data
 - apply economic terms, concepts, relationships and theory
 - present a sustained, logical and well-structured answer to the question
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Question 27 (20 marks)

Discuss the effectiveness of Australia's monetary and fiscal policies in dealing with economic growth and inflation.

OR

Question 28 (20 marks)

Discuss the impact of globalisation on one or more economies, with reference to economic development and environmental consequences.

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