

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

2006

**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 9, 13, 15 and 17

Total marks – 100

Section I Pages 2–8

20 marks

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

Section II Pages 9–18

40 marks

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

Section III Pages 19–20

20 marks

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

Section IV Page 21

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 Which of the following is a feature of a decentralised industrial relations framework?
- (A) An increase in the role of industrial tribunals
 - (B) The indexation of wage increases to inflation
 - (C) Greater involvement of unions in wage negotiations
 - (D) Individual negotiations between employees and employers
- 2 Which international organisation is mainly responsible for monitoring and enforcing global multilateral trade agreements?
- (A) Association of South East Asian Nations
 - (B) Asia Pacific Economic Co-operation
 - (C) World Trade Organisation
 - (D) International Monetary Fund

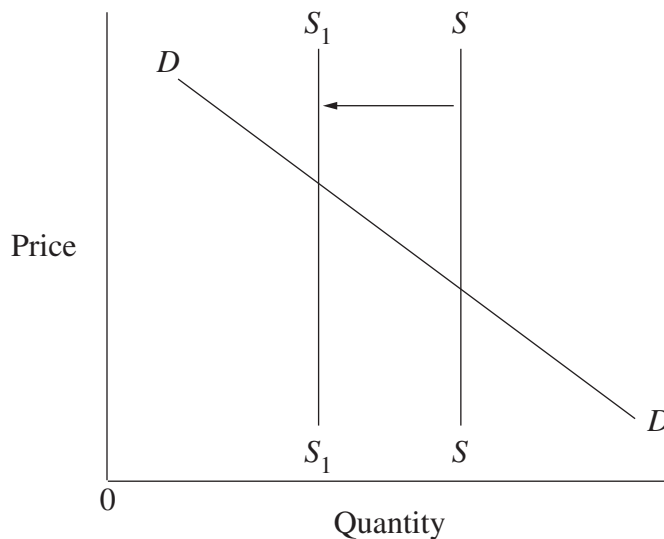
3 The table shows selected data for a nation.

<i>Year</i>	<i>Money gross domestic product (GDP) (\$m)</i>	<i>Literacy level (%)</i>	<i>Mortality rate per 1000 population</i>	<i>Consumer price index (CPI)</i>
1995	\$4000	67	80	145
2005	\$7550	79	55	170

According to the data, which statement correctly describes what this economy has experienced over the time period shown?

- (A) An increase in real GDP but a decline in living standards
 - (B) An increase in real GDP and improved living standards
 - (C) A decrease in real GDP and a decline in living standards
 - (D) A decrease in real GDP but improved living standards
- 4 Which of the following indicates *international convergence*?
- (A) Increasing similarity of economic systems
 - (B) Reductions in the international mobility of labour
 - (C) Dismantling of internationally-based trade agreements
 - (D) Widening gaps between developed and developing economies

- 5 If an economy is experiencing high levels of demand inflation, what would be appropriate policy responses?
- (A) Increased government expenditure, decreased taxation and increased interest rates
 (B) Increased government expenditure, decreased taxation and decreased interest rates
 (C) Decreased government expenditure, increased taxation and increased interest rates
 (D) Decreased government expenditure, increased taxation and decreased interest rates
- 6 As a percentage of Gross Domestic Product, which of the following is a measure of external stability?
- (A) Capital inflow
 (B) The budget deficit
 (C) Household savings ratio
 (D) The current account deficit
- 7 The diagram shows the impact of a change in the quota for imported cars.



According to the diagram, what are the effects of a movement in the supply curve from SS to S_1S_1 ?

- (A) The quota has increased and local car producers face more competition.
 (B) The quota has increased and local car producers face less competition.
 (C) The quota has decreased and local car producers face more competition.
 (D) The quota has decreased and local car producers face less competition.

8 Other things being equal, if an increase of \$90m in investment expenditure resulted in an increase in national income of \$225m, what is the value of the Marginal Propensity to Consume (MPC)?

- (A) 0.25
- (B) 0.4
- (C) 0.6
- (D) 2.5

9 The table shows the relative weights allocated to the currency of Australia's major trading partners.

<i>Currency</i>	<i>Relative weights</i>	
	<i>Year 1</i>	<i>Year 2</i>
Japanese Yen	18.7	16.1
United States Dollar	15.8	17.2
European Euro	12.4	10.7
UK Pound Sterling	5.3	7.0

Which of the following is a possible explanation for the movement in the relative weights of the currencies of Australia's trading partners?

- (A) A reduction in goods imported to Australia from the UK
 - (B) An increase in the volume of Australia's trade with Japan
 - (C) The implementation of a free trade agreement between Australia and Europe
 - (D) An increase in Australia's demand for traded commodities from the United States
- 10 What is an economic benefit for an economy of an unequal distribution of income and wealth?
- (A) An increase in social division
 - (B) An increase in the household debt ratio
 - (C) An increased incentive to work longer hours
 - (D) An increased level of government welfare spending

- 11** Which of the following could explain a movement in Australia's Terms of Trade index from 110 to 106?
- (A) A rise in export prices relative to import prices
 - (B) A rise in import prices relative to export prices
 - (C) A fall in the quantity of goods imported relative to goods exported
 - (D) A fall in the quantity of goods exported relative to goods imported

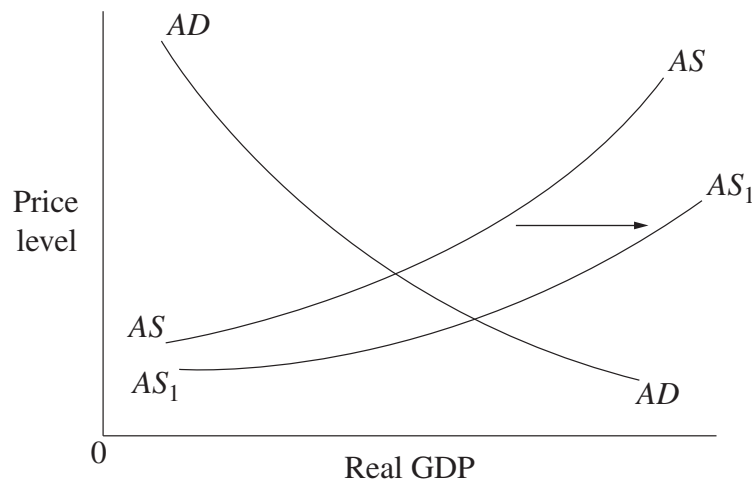
- 12** The table shows selected data for an economy.

<i>Year</i>	<i>Money GDP</i> (\$bn)	<i>CPI</i>
1	600.0	100
2	750.0	110
3	820.0	125
4	900.0	130

According to the information in the table, what is the real GDP (\$bn) in Year 3 compared to the base year?

- (A) \$656.0
 - (B) \$721.6
 - (C) \$931.8
 - (D) \$1025.0
- 13** Under a floating exchange rate system, what would be the likely effect of a fall in Australia's inflation rate relative to the average rate of inflation of Australia's major trading partners?
- (A) A rise in Australia's interest rates
 - (B) A decrease in the supply of foreign currency
 - (C) A deterioration in the balance on current account
 - (D) An increase in the demand for the Australian dollar
- 14** Which of the following methods could be used by the Federal Government to finance a budget deficit?
- (A) Borrowing funds from the Reserve Bank of Australia
 - (B) Purchasing second-hand government securities from overseas markets
 - (C) Increasing the level of government taxation and reducing government spending
 - (D) Buying Commonwealth government securities from the domestic financial market

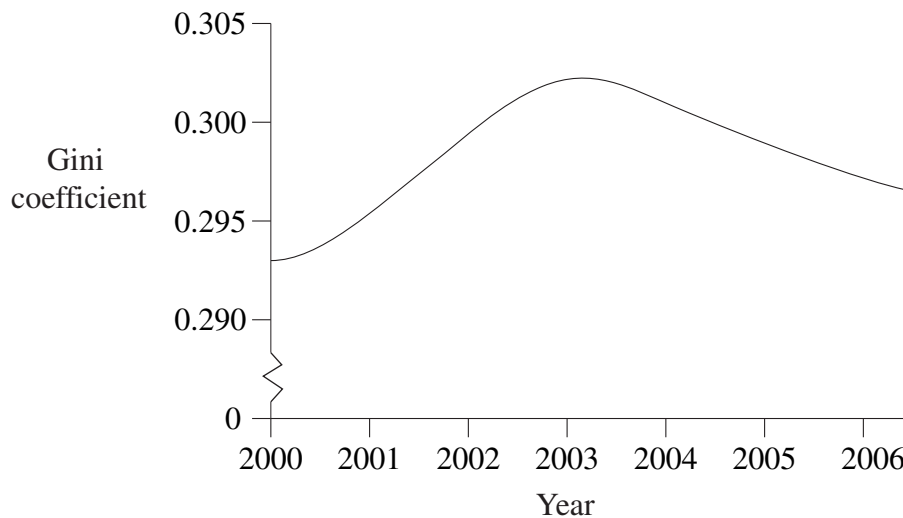
- 15 Other things being equal, what would be the impact of an increase in net capital inflow on the Australian currency?
- (A) There would be an increase in the demand for the Australian dollar and an appreciation of the currency.
 - (B) There would be a decrease in the demand for the Australian dollar and a depreciation of the currency.
 - (C) There would be an increase in the supply of the Australian dollar and an appreciation of the currency.
 - (D) There would be a decrease in the supply of the Australian dollar and a depreciation of the currency.
- 16 Which of the following is a reason for market failure in environmental management?
- (A) Environmental resources are renewable and therefore difficult to cost.
 - (B) The price mechanism does not always take into account social costs and benefits of production.
 - (C) The market can only take into account public goods and services and not private goods and services.
 - (D) Well-defined property rights do not protect individual owners of environmental resources.
- 17 The diagram shows aggregate demand and aggregate supply curves for a nation.



What could cause a shift of the aggregate supply curve from AS to AS_1 ?

- (A) A decrease in the cost of labour
- (B) A decrease in domestic subsidies
- (C) An increase in the level of domestic interest rates
- (D) An increase in rates of excise duties on production

- 18 What would decrease as a result of an improvement in the international business cycle?
- (A) Cyclical unemployment
 (B) Foreign investment
 (C) Global inflation
 (D) Export receipts
- 19 Which of the following would be recorded as a debit item in the Capital and Financial account of Australia's Balance of Payments?
- (A) Interest repaid by Australian firms on overseas loans
 (B) Foreign aid from the Australian government for road building in Bali
 (C) Dividends received by Australian shareholders for overseas investments
 (D) Taxation revenue collected by the Australian government from foreign-based firms
- 20 The graph shows the movement of the Gini coefficient for a hypothetical economy.



Which of the following government actions could be responsible for the trend shown since 2003?

- (A) A greater use of indirect taxes
 (B) An increase in welfare payments
 (C) A reduction in minimum award wages
 (D) A reduction in the marginal tax rate for high income earners

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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.

Marks

Question 21 (10 marks)

The following information concerns employment issues in Australia.

Employment growth in Australia was very strong through 2004–05 due to an increasingly efficient labour market and a more flexible wage system. This led to a steady fall in the unemployment rate to the lowest level in 28 years in 2005. More people are being encouraged to participate in the workforce. If more people are able to find work then this will lead to higher incomes and better participation in mainstream economic life.

Employment growth, however, is forecast to slow through 2006–07 in response to slower GDP growth through late 2005.

Adapted from the *Australian Government Budget Papers 2005–06*

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- (a) According to the Budget Papers, what is ONE reason for Australia’s unemployment rate in 2004–05? 1

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- (b) Distinguish between *cyclical* and *hidden* unemployment. 2

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Question 21 continues on page 10

Question 21 (continued)

(c) Identify ONE cause of an increase in the labour force participation rate, and briefly explain TWO economic effects of this increase. 3

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Question 21 continues on page 11

Question 21 (continued)

- (d) Account for the higher than average rates of unemployment experienced by TWO groups in the Australian economy. **4**

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End of Question 21

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Section II (continued)

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Student Number

Marks

Question 22 (10 marks)

The table shows information relating to the annual budget for a hypothetical economy.

	<i>Year 2005</i> (\$ millions)	<i>% change on</i> <i>previous year</i>
Expenditure (actual)		
Social security/welfare	62,000	-18.0%
Health	25,000	+3.0%
Essential infrastructure	10,000	+1.4%
Revenue (actual)		
Income taxes	95,000	+9.8%
Company taxes	20,000	+15.0%

(a) Calculate the budget surplus for this economy. **1**

..... (\$ millions)

(b) Quoting evidence from the table, outline TWO factors that have influenced this budget outcome. **2**

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Question 22 continues on page 14

Question 22 (continued)

(c) Outline how a government can use fiscal policy to alter the level of income distribution. 2

Dotted lines for answer (c)

(d) Explain how fiscal policy could be used by a government to reduce a deficit on the current account. 5

Dotted lines for answer (d)

End of Question 22

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Centre Number

Section II (continued)

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Student Number

Marks

Question 23 (10 marks)

- (a) Distinguish between a *factor market* and a *product market*. **2**

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- (b) Using ONE example from the Australian economy, briefly explain how a market or industry has been deregulated. **3**

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Question 23 continues on page 16

Question 23 (continued)

- (c) Identify TWO microeconomic reforms, and discuss the impact of each reform on productivity and international competitiveness in the Australian economy.

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End of Question 23

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Centre Number

Section II (continued)

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Student Number

Marks

Question 24 (10 marks)

The table shows selected data for an economy that uses a floating exchange rate system.

<i>Balance of payments items</i>	<i>\$ billion</i>
Exports	110
Imports	130
Net services	15
Net incomes	-25
Capital account	4
Financial account	26

- (a) Calculate the balance on current account for this economy. **1**

..... (\$ billion)

- (b) Quoting evidence from the table, outline TWO factors influencing the balance on current account. **2**

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Question 24 continues on page 18

Question 24 (continued)

- (c) Briefly explain the relationship between the *current account* and the *capital and financial account* under a floating exchange rate system. **3**

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- (d) Explain how a rise in domestic interest rates for an economy could affect TWO components of its Balance of Payments. **4**

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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 impact of reduced levels of protection on the global economy.

The International Monetary Fund (IMF) has estimated that world income would increase by at least US\$250bn if agricultural protection were abolished, with both rich and poor countries benefiting from increased trade.

Some groups in developing and developed countries, however, are opposed to reduced levels of protection, for example, food importers fear higher prices if agricultural export subsidies are removed.

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Source: Adapted from World Trade Organisation,
Outlook 2006

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
-

Question 26 (20 marks)

Analyse the impacts of macroeconomic and microeconomic policies on the economic performance of the Australian economy.

The Australian government has at its disposal a combination of macro and micro policies that it can implement to achieve its economic objectives, which includes price stability, full employment and the promotion of economic prosperity. Monetary policy primarily aims to achieve price stability, while the government's current fiscal policy of maintaining surpluses aims to promote external stability.

Selected Annual Economic Data for the Australian Economy

<i>Key economic indicators</i>	<i>2004</i>	<i>2005</i>	<i>2006 est</i>
Real GDP growth rate (%)	3.0	2.6	3.2
Consumer price index	2.3	2.7	3.1
Unemployment rate (%)	5.6	5.1	5.0
Household saving rate (% GDP)	-3.0	-2.2	-1.3
Budget balance (% GDP)	1.0	1.0	0.9
Current account balance (% GDP)	-6.4	-5.8	-5.2
Foreign debt (% GDP)	51.1	48.3	52.1
RBA cash rate (%)	5.25	5.25	5.5

Source: Adapted from *Economic Outlook 2005–2006*, OECD

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
-

Question 27 (20 marks)

Outline the causes of an increase in demand for the Australian dollar, and discuss the impacts on the Australian economy of a sustained appreciation of the Australian currency.

OR

Question 28 (20 marks)

Outline the arguments for ecologically sustainable development, and discuss the likely impacts of an increase in the rate of Australia's economic growth on the environment.

End of paper

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