



**NORTH SYDNEY GIRLS HIGH SCHOOL**

**HSC TRIAL EXAMINATION**

**2011**

***ECONOMICS***

**General Instructions**

- Reading time – 5 minutes
- Working time – 3 hours
- Write using black or blue pen
- Board approved calculators may be used

**Total marks - 100**

**Section I**

**20 marks**

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

**Section II**

**40 marks**

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

**Section III**

**20 marks**

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

**Section IV**

**20 marks**

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

## SECTION I

Total marks (20)

Attempt Questions 1 –20

Allow about 35 minutes for this section

1. Which of the following is a possible justification for continued trade protection?
- (A) Misallocation of resources
  - (B) Infant industries have become more established
  - (C) Interest rates have fallen
  - (D) Overseas suppliers are increasing their level of dumping

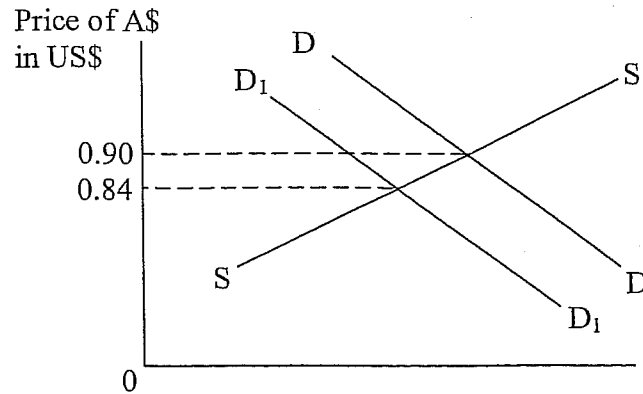
2. The table shows selected data for an economy.

Population of Working Age	Full-time Employed	Part-time Employed	Unemployed
20 million	10 million	2 million	1 million

Which of the following statements is correct?

- (A) The participation rate in the economy is 60%.
  - (B) The participation rate in the economy is 65%.
  - (C) The unemployment rate in the economy is 10%.
  - (D) The unemployment rate in the economy is 5%.
3. What is the likely impact of Japan increasing its quota on the importation of Australian beef?
- (A) Australian beef farmers will gain increased access to Japanese beef markets.
  - (B) Japanese beef farmers will gain increased protection from Australian beef imports.
  - (C) There will be an increase in employment opportunities in the Japanese beef industry.
  - (D) There will be a decrease in employment opportunities in the Australian beef industry.
4. Which of the following actions could the Reserve Bank undertake to increase the level of economic activity in the Australian economy?
- (A) Increases the availability of money to reduce interest rates
  - (B) Increases the availability of money to increase interest rates
  - (C) Decreases the availability of money to reduce interest rates
  - (D) Decreases the availability of money to increase interest rates

- 5 The following diagram shows the demand and supply for Australian dollars in the foreign exchange market.



Which of the following could have caused the recent depreciation in value of the Australian dollar?

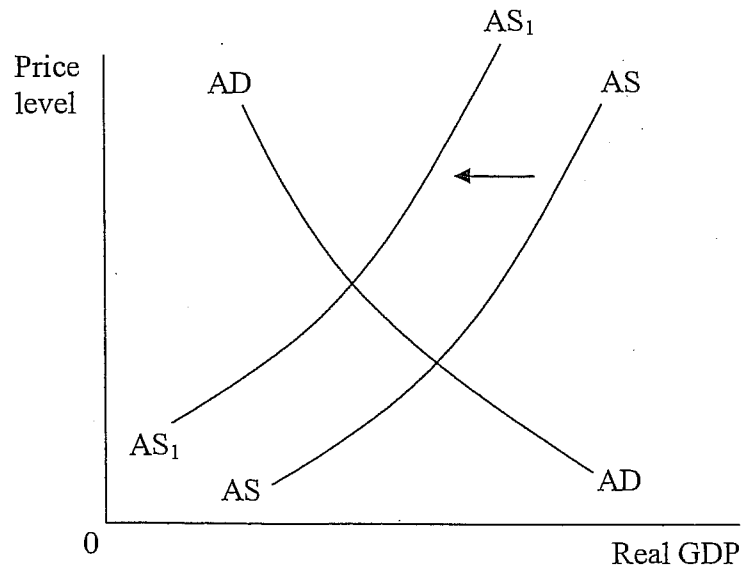
- (A) An increase in Australian interest rates due to the threat of inflation
- (B) An increase in Australian exports due to China's rapid growth
- (C) A decrease in commodity imports as Australia's growth slows
- (D) A decrease in foreign investment in Australia due to the European debt crisis
6. Which of the following would result in an increase in international competitiveness?
- (A) Rising wages growth and an appreciation of the Australian dollar
- (B) Reduced emphasis on enterprise bargaining and increased regulation of markets
- (C) Increased emphasis on enterprise bargaining and a depreciation of the Australian dollar
- (D) Increased levels of protection and regulation of labour markets
7. The following table shows balance of payments data for an economy with a floating exchange rate and Net Errors and Omissions that are zero.

Balance on goods and services	\$10 billion
Net primary income	?
Net secondary income	\$2 billion
Capital Account	\$10 Billion
Financial Account	\$15 billion

- (A) -\$20 billion
- (B) -\$37 billion
- (C) \$12 billion
- (D) \$30 billion

8. Which one of the following economic policies will tend to increase aggregate demand?
- (A) An increase to the budget surplus and increased export income
  - (B) A decrease in government expenditure and an increase in imports
  - (C) An increase in investment and export income
  - (D) An increase in savings and a decrease to the budget deficit
9. What is one means of financing a budget deficit?
- (A) Reducing the level of government outlays
  - (B) Increasing the level of personal income tax
  - (C) Increasing the level of infrastructure investment
  - (D) Borrowing from the public
10. If  $X = 50$ ,  $M = 40$ ,  $G = 50$ ,  $T = 80$ ,  $I = 10$  and  $S = 5$ , what will happen to the economy?
- (A) The economy will expand because exports are greater than imports
  - (B) The economy will contract because of fiscal policy
  - (C) The economy will expand because of high consumer spending
  - (D) The economy will contract because imports are high
11. Which of the following organisations assists countries with balance of payments problems?
- (A) The World Bank
  - (B) The World Trade Organisation
  - (C) The International Monetary Fund
  - (D) The European Union
12. Which of the following combinations of economic policies might lead to a change in the Gini co-efficient from 0.311 to 0.302?
- (A) A decrease in unemployment benefits and a decrease in the marginal taxation rate for low income earners
  - (B) A decrease in unemployment benefits and an increase in the marginal taxation rate for low income earners
  - (C) An increase in unemployment benefits and an increase in the marginal taxation rate for low income earners
  - (D) An increase in unemployment benefits and a decrease in the marginal taxation rate for low income earners

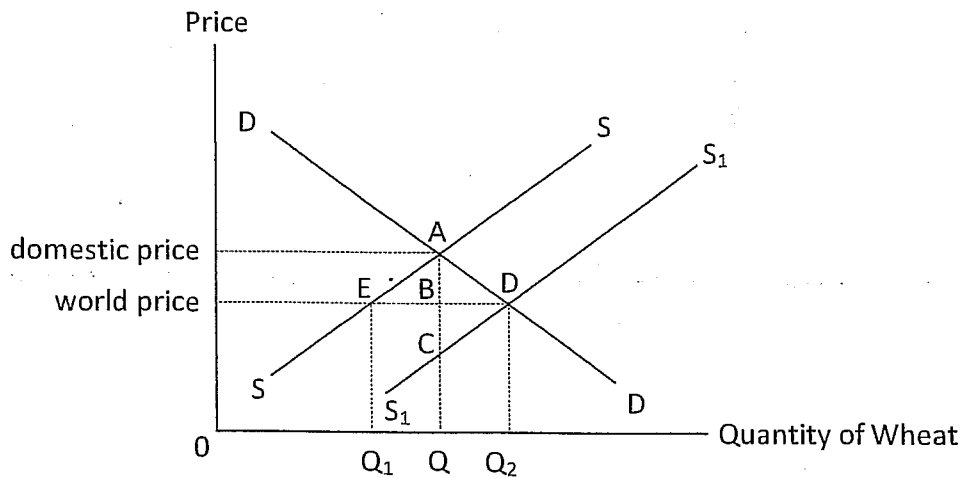
- 13 The following diagram shows the aggregate demand and aggregate supply curves for the Australian economy.



Which of the following changes in government economic policy could cause a shift of the aggregate supply curve from AS to AS<sub>1</sub>?

- (A) A new carbon tax on the mining industry
  - (B) Upswing in world economic activity
  - (C) A decrease in the rate of GST from 10% to 7.5%
  - (D) Income tax cuts for all income earners
- 14 Which of the following factors could cause an increase in the size of current account deficit?
- (A) A decrease in portfolio investment in Australia
  - (B) An increase in interest payments to foreign investors
  - (C) An increase in inbound tourism
  - (D) A decrease in official interest rates in Australia
15. Which statement is consistent with an economy maximising its efficiency in the allocation of resources?
- (A) The maximum level of GDP has been achieved
  - (B) The opportunity cost of production has been eliminated
  - (C) An equitable share of production has been achieved
  - (D) The use of resources has generated the maximum level of satisfaction for the economy

- 16 The following diagram shows the effect of a subsidy paid to domestic producers of wheat in a hypothetical economy.



What is the size and impact of the subsidy on domestic wheat production?

- (A) The subsidy is AB and supply falls from  $Q_2$  to  $Q_1$ .  
 (B) The subsidy is AC and supply increases from  $Q_1$  to  $Q_2$ .  
 (C) The subsidy is ED and supply increases from  $Q_1$  to  $Q$ .  
 (D) The subsidy is BC and supply falls from  $Q$  to  $Q_1$ .
- 17 The following table shows export and import price indexes for a hypothetical economy.

Year	Export Price Index	Import Price Index
1	105	110
2	110	120

What is the value of the terms of trade in Year 2 and its implication for the economy?

- (A) 95.5, and the economy can buy more imports with a given volume of exports  
 (B) 95.5, and the economy can buy less imports with a given volume of exports  
 (C) 91.6, and the economy can buy less imports with a given volume of exports  
 (D) 91.6, and the economy can buy more imports with a given volume of exports
- 18 Which of the following are possible causes of cost inflation?
- (A) Labour skills shortages and rising oil prices  
 (B) A decrease in interest rates and microeconomic reform of markets  
 (C) An increase in interest rates and microeconomic reform of markets  
 (D) Wages rises based on productivity improvements and technological change

- 19 The table shows selected data for an economy.

	Year 1	Year 2
Cash rate	5.5%	7.0%
Budget outcome	+ \$20 billion	+ \$32 billion

Which policy objectives would the government be attempting to achieve in Year 2?

- (A) To reduce the rates of unemployment and inflation
  - (B) To reduce the inflation rate and rate of economic growth
  - (C) To reduce the inflation rate and increase the rate of economic growth
  - (D) To reduce the rate of unemployment and increase the rate of economic growth
- 20 Which of the following would cause an increase in the rate of cyclical unemployment and a decrease in the rate of structural unemployment respectively?
- (A) An upswing in the global economy and increasing rates of technological change
  - (B) A recession in the global economy and increasing rates of technological change
  - (C) A deficiency in the level of aggregate demand and increased spending on education and training
  - (D) A deficiency in the level of aggregate demand and decreased spending on education and training

**Section 11**

**Total marks (40)**

**Attempt Questions 21 – 24**

**Allow about 1 hour and 15 minutes for this section**

Answer the questions in the spaces provided

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Question 21 (10 marks)

INCOME \$	CONSUMPTION \$	SAVINGS \$
100	80	20
200	160	40
300	240	60
400	320	80

(a) Define Marginal Propensity to Save.

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(b) Using the table above calculate the multiplier. (show working)

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(c) Calculate the growth in income as a result of an injection of \$150

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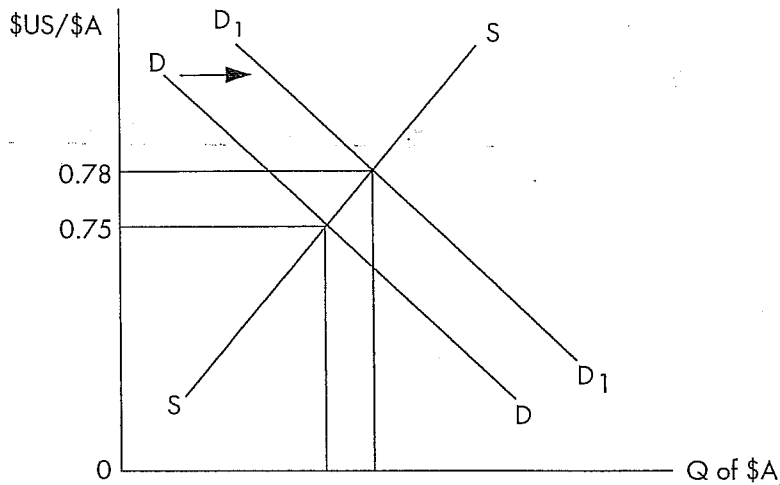
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Question 22 (10 marks)



The diagram above shows information about the demand and supply of Australian dollars (\$A) in terms of United States dollars (\$US) in the foreign exchange market. Both countries have flexible exchange rates.

(a) What is a fixed exchange rate system?

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(b) Outline one possible cause of the change to the value of the Australian dollar as shown in the diagram above.

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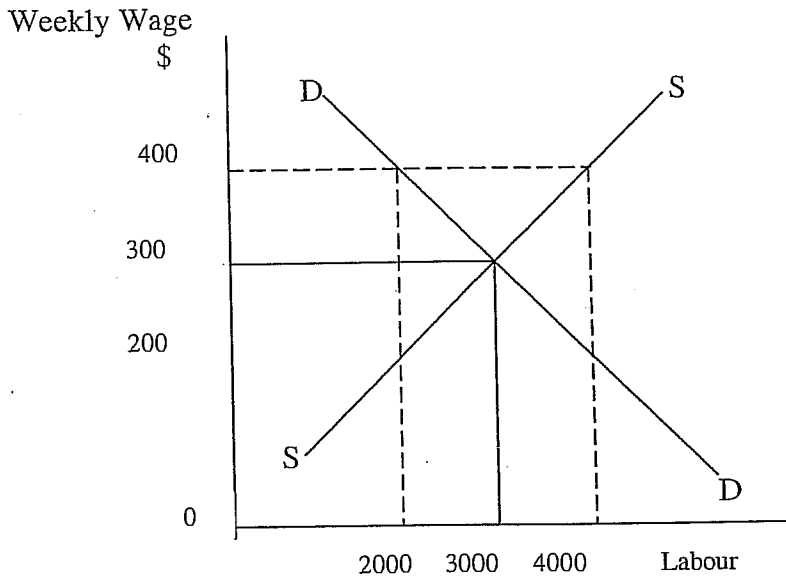
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Question 23 (10 marks)



(a) What would be the effect on the labour market if wage rates were set at \$400 per week?

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**Question 24 (10 marks)**

“In recent decades Australia’s Current Account balance has been regularly in deficit. In fact, the last current account surplus was in 1972/73.

High CADs occur when the net primary income deficit is added to by a large deficit in the Balance on Goods and Services.”

J. Bulmer  
Updated Economics

(a) Define the term current account deficit.

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(b) Analyse the role of the net primary income component of the current account on determining the size of Australia’s current account deficit.

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## Section 111

Total marks (20)

Attempt either Question 25 or Question 26

Allow about 35 minutes for this section.

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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 25 (20 marks)

Evaluate the effectiveness of the government's macroeconomic policies in achieving internal balance and economic growth in the Australian economy. In your answer, you should refer to the economic information provided.

#### Fiscal consolidation paves way to 2012-13 surplus

“As economic growth has returned following the slowdown during the global financial crisis, the cyclical components of the budget – the automatic stabilisers – have worked to gradually increase government revenue and moderate government expenditure.”

“The Government has also announced a range of discretionary policy changes to support the contractionary impact of the automatic stabilisers in tightening fiscal policy.”

Economics Update Vol. 18 No.4 May 2011

“Policy lags are the length of time that elapses between a change in the stance of an economic policy and its effects on real economic activity and economic activity”

T. Riley

Year 12 Economics 2011

#### Cash Rate Target - Interest Rate Decisions from the RBA Website

Monetary policy decisions are expressed in terms of a target for the cash rate, which is the overnight money market interest rate.

Effective Date	Cash Rate Target	
	Change in cash rate Percentage points	New cash rate target Per cent
3 Nov 2010	+0.25	4.75
5 May 2010	+0.25	4.50



**Question 26 (20 marks)**

Evaluate the effectiveness of Australia's microeconomic reform policies in managing the Australian economy. In your answer, you should refer to the economic information provided.

"Reforms in manufacturing have centred on reducing the level of assistance. In 1987/88 the effective rate of protection was 19%. Currently it is around 5%."

"Competition policy is concerned with promoting competitive pressures in the economy as a means of improving economic efficiency."

"But there are adjustment pains to be borne. There will be job losses as reforms are implemented."

Updated Economics  
J. Bulmer  
2011 Edition B

"Structural change has important implications for Australia's balance of payments outcome as a more efficient allocation of domestic resources (such as labour and capital) and the use of the latest technology assist in the diversification of Australia's export base, and a rise in the competitiveness of export industries."

"The Australian Industrial Relations system has become more decentralised and deregulated. The labour market has become more competitive and flexible, and this has led to an improvement in efficiency with which labour is allocated in the economy."

T. Riley  
Year 12 Economics 2011

**Section IV**

**Total marks (20)**

**Attempt either Question 27 or Question 28**

**Allow about 35 minutes for this section**

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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)**

Evaluate the economic benefits and costs of globalisation.

**OR**

**Question 28 (20 marks)**

Evaluate the strategies used to promote economic growth and development in an economy other than Australia.