



2008
**Trial Higher School Certificate
Examination**

Economics

Date: Thursday 7th August

General Instructions

- Reading Time - *5 minutes*
- Working Time - *3 hours*
- Write using using black or blue pen.
- Write your candidate number on the top of each page (*or front of each booklet*).
- All work will be collected in one bundle.

Total marks – 100

Structure of Paper + Instructions

- Section I (20 marks). Answer all questions in the Answer Booklet provided. Select the alternative A, B, C or D that most fully and correctly answers the question.
- Section II (40 marks). Answer all questions in the Answer Booklet provided.
- Section III (20 marks). Attempt one question from this section. Answer this question after carefully reading the stimulus material.
- Section IV (20 marks). Attempt one question from this section.
- Board approved calculators may be used.

| CHECKLIST |
|---|
| Each boy should have the following: |
| 1 Question Paper |
| 1 <i>Multiple-choice + Short Answer Booklet</i> |
| 2 <i>Writing Booklets</i> |

SECTION I

Attempt ALL questions.

Select the alternative that best answers the question.

Mark your answer on the Answer Sheet provided. (20 marks)

Spend no more than 35 minutes on this section.

1. Which of the following conditions is **NOT** consistent with the process of globalisation?
 - (A) An increase in the number of trade agreements at a multilateral and regional level.
 - (B) A diminished role for international organisations such as the WTO and IMF.
 - (C) A greater divergence in the way economic systems operate in a global economy.
 - (D) Greater freedom in the movement of financial capital across national borders.

2. What is meant by the term hidden unemployment?
 - (A) Unemployed workers who fail to register for unemployment benefits.
 - (B) Those of working age who have become discouraged from actively seeking employment.
 - (C) Workers who are not working as much as they would prefer.
 - (D) Workers who are unable to work because of illness or disability.

3. Which of the following is recorded as a debit item in the current account of the Australian Balance of Payments?
 - (A) The purchase of shares in overseas based organizations.
 - (B) Receipts of dividends by Australians from the ownership of foreign based equities.
 - (C) Australian financial aid to developing countries.
 - (D) The sale of commodities to existing trading partners.

4. An increase in investment expenditure of \$200 million changes the equilibrium level of national income by \$500 million. What is the size of the marginal propensity to consume?
 - (A) 0.6
 - (B) 0.4
 - (C) 2.5
 - (D) 5.0

5. A change in the value of currency from $\$1A = \$0.90US$ to $\$1A = \$0.95US$ is likely to cause which of the following to occur?
 - (A) An increase in American tourism to Australia.
 - (B) America buying more goods from Australia.
 - (C) Higher priced American goods in the Australian economy.
 - (D) A reduced value to Australian investors from their investments in America.

6. Which of the following statements best describes the term the natural rate of unemployment?
- (A) When the labour market is experiencing structural unemployment.
 - (B) A level of unemployment coinciding with zero inflation.
 - (C) When the economy is said to be operating at full employment.
 - (D) A level of unemployment which will increase with slower economic growth.
7. If the government budgets for a surplus and there is an unexpected decrease in the level of economic activity, which of the following situations is likely to occur?
- (A) There will be a decrease in tax revenues and a decrease in the budget surplus.
 - (B) There will be a decrease in tax revenues and an increase in the budget surplus.
 - (C) There will be an increase in tax revenues and an increase in the budget surplus.
 - (D) There will be an increase in tax revenue and a decrease in the budget surplus.
8. Which of the following is a likely effect of a subsidy to domestic firms?
- (A) The price of exported goods will rise.
 - (B) The total production of domestic firms will decline.
 - (C) Production costs for firms receiving the subsidy are effectively reduced.
 - (D) The market share of overseas firms will increase.
9. Which of the following statements best describes the Human Development Index?
- (A) An index which measures the growth rate of an economy.
 - (B) An index comprising indicators of an economy's production, education and health levels.
 - (C) An index which measures the degree of inequality in the distribution of income and wealth amongst economies.
 - (D) A measurement of an economy's standards in environmental quality.
10. Which of the following statements best describes the impact of non discretionary elements of fiscal policy?
- (A) Will result in an automatic counter cyclical effect on the business cycle.
 - (B) Will result in a smaller budget deficit during a period of weaker economic activity.
 - (C) Will tend to widen the degree of income inequality during a period of weaker economic activity.
 - (D) Will result in a larger budget surplus during a period of weaker economic activity.

11. The table shows population and employment data for a particular nation. (All data is in units of a million.)

| Period | Population | Working Age Population | Employed Persons | Officially Unemployed |
|--------|------------|------------------------|------------------|-----------------------|
| 1 | 40 | 20 | 12 | 4 |
| 2 | 50 | 26 | 18 | 6 |

Which of the following statements is correct concerning the nation between period 1 and period 2?

- (A) The participation rate decreased.
 (B) The participation rate increased.
 (C) The unemployment rate decreased.
 (D) The unemployment rate increased.
12. Under a floating exchange rate system, the following balances are recorded for a particular economy.

| Item | \$bn |
|---------------|------|
| B.O.G.S. | 32 |
| Net Transfers | 4 |
| Net Income | ? |
| Capital A/c | 34 |
| Financial A/c | 26 |

What is the value of Net Income for this economy?

- (A) -\$96bn
 (B) -\$60bn
 (C) \$24bn
 (D) \$60bn
13. The ability of producers to respond to changes in market conditions is best described by which of the following terms?
- (A) Allocative efficiency.
 (B) Dynamic efficiency.
 (C) Technical efficiency.
 (D) Productive efficiency.

14. The debt servicing ratio is calculated as the ratio between which two values?
- (A) The ratio of interest repayments to foreign debt.
 - (B) The ratio of interest repayments to export earnings.
 - (C) The ratio of foreign debt to GDP.
 - (D) The ratio of foreign debt to net foreign liabilities.
15. In Australia which of the following statements about wage determination is correct?
- (A) All wage increases are the result of enterprise agreements.
 - (B) Australian Workplace Agreements were established in consultation with trade unions.
 - (C) The Federal Government sets minimum awards at the National Wage Case.
 - (D) Individual contracts represent market based wage determination.
16. The term transition economy is used to describe which of the following type of economy?
- (A) An economy moving from central planning to a market style of economic organization.
 - (B) An economy moving from a labour intensive style of production to one in which capital intensification is occurring.
 - (C) A developing economy which is increasing its export growth.
 - (D) An economy which is moving towards greater acceptance of trade liberalisation.
17. Which of the following statements best describes the principles of supply side economics?
- (A) Increases in living standards are achieved by increases in transfer payments by the government.
 - (B) The use of expansionary monetary policies to achieve a faster rate of economic growth.
 - (C) Higher increases in wage levels in order for higher levels of output to be purchased.
 - (D) The removal of regulations aimed at improving the capacity of the private sector to expand output in a least cost fashion.
18. Which of the statements below best describes the 'Terms of Trade'?
- (A) The difference in value between export earnings and import payments.
 - (B) Conditions under which trade flows between countries can take place.
 - (C) The variation in balance between the Current Account and the Capital and Financial Account.
 - (D) The relative price movements in exports and imports.

19. Other things being equal, what factor is most likely to decrease the structural surplus of the Australian government's Budget?
- (A) The introduction of a new tax.
 - (B) Unemployment falling to its natural rate.
 - (C) An increase in the value of the Australian dollar.
 - (D) An increase in spending on welfare.
20. Which effect is most likely following a shift to a less protectionist policy regarding international trade?
- (A) A rise in the level of employment in those industries that were previously protected.
 - (B) A shift in resources towards those industries that were previously unprotected.
 - (C) A general rise in prices for those industries whose protection has been removed.
 - (D) A shift in income distribution towards those industries that had previously been protected.

THIS IS THE END OF SECTION I

The questions for Section II are contained in the Answer Booklet. Please complete in the spaces provided.

SGS 2008 TRIAL HSC ECONOMICS

Candidate Number

SECTION I

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|------|---|---|---|---|------|---|---|---|---|
| (1) | A | B | C | D | (11) | A | B | C | D |
| (2) | A | B | C | D | (12) | A | B | C | D |
| (3) | A | B | C | D | (13) | A | B | C | D |
| (4) | A | B | C | D | (14) | A | B | C | D |
| (5) | A | B | C | D | (15) | A | B | C | D |
| (6) | A | B | C | D | (16) | A | B | C | D |
| (7) | A | B | C | D | (17) | A | B | C | D |
| (8) | A | B | C | D | (18) | A | B | C | D |
| (9) | A | B | C | D | (19) | A | B | C | D |
| (10) | A | B | C | D | (20) | A | B | C | D |

22. (10 Marks)

Consider the following tables before answering this question.



Marks

(a) What do you understand by the term TWI?

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(b) Identify **THREE** distinct reasons for the strength of the rise of the \$A against major trading partners in the recent period.

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(c) Examine the implications for the Australian economy on account of the recent trend in the \$A against its major trading partners.

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End of question 22

23. (10 Marks)

Consider the following tables before answering this question.

(a) Identify the formula for the percentage rate of unemployment. 1

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(b) Identify the formula for the participation rate of the workforce. 1

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(c) Why has Australia’s participation rate seen a steady improvement in recent times? 2

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(d) Account for the trend in unemployment as indicated in the table above. 3

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(e) What are the potential problems Australia faces as tighter labour market conditions are experienced in the current period? 3

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End of question 23

24. (10 marks)

Consider the table showing economic conditions in a hypothetical economy before answering this question.

| Year | Money GDP \$bn | Real GDP \$bn | CPI | change in real GDP | U/E rate | CAD as a % of GDP |
|------|----------------|---------------|-----|--------------------|----------|-------------------|
| 1 | 300 | 300 | 100 | 2.0% | 6.0% | 3.5 |
| 2 | 310 | 307 | 101 | 2.3% | 5.4% | 4.0 |
| 3 | 332.8 | 317 | 105 | 3.2% | 5.0% | 4.5 |
| 4 | 363 | ? | 110 | 4.1% | 4.3% | 5.5 |

(a) Calculate the real GDP for Year 4.

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(b) Calculate the inflation rate for Year 4.

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(c) Prescribe **ONE** macroeconomic measure appropriate for the economic circumstances being experienced in the economy above.

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(d) Account for the inverse relationship between inflation and unemployment in the short term.

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(e) Examine **TWO** factors that could explain the trend in the CAD as indicated in the table.

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END OF SECTION II

SECTION III
(20 marks)

Attempt EITHER Question 25 OR Question 26.

Questions are of equal value.

Allow at least 35 minutes for this question.

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

EITHER

Q25. Examine how recent fiscal policy in Australia has operated to improve economic stability, resource allocation and the distribution of income.

“The budget will be good for the Australian economy, although more will need to be done to take pressure off interest rates....it’s good on infrastructure, it’s good on workforce skills and it makes good progress on reducing the size of government expenditure. Those measures that will help kickstart the government’s five point plan to fight inflation.”

Peter Anderson, Australian Chamber of Commerce and Industry May 2008

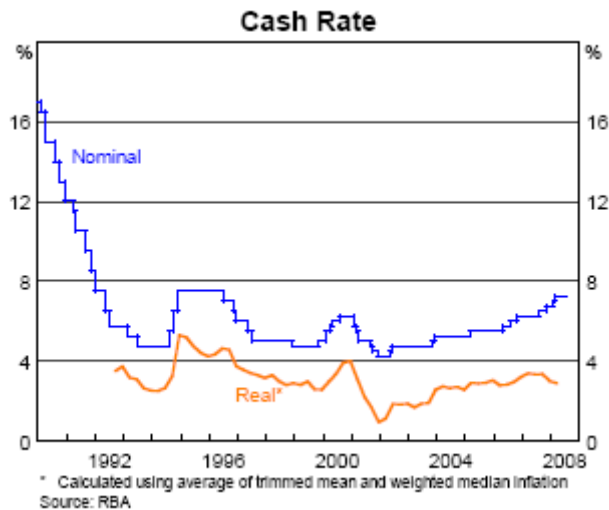
| | Actual | Estimates | | Projections | | |
|---|-------------|-------------|-------------|-------------|-------------|-------------|
| | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 | 2011-12 |
| Underlying cash balance (\$b)(b) | 17.2 | 16.8 | 21.7 | 19.7 | 19.0 | 18.9 |
| Per cent of GDP | 1.6 | 1.5 | 1.8 | 1.5 | 1.4 | 1.3 |
| Fiscal balance (\$b) | 17.2 | 20.4 | 23.1 | 22.4 | 23.3 | 22.6 |
| Per cent of GDP | 1.6 | 1.8 | 1.9 | 1.7 | 1.7 | 1.6 |

OR

- Q26. Explain the strategy of inflation targeting as used by the Reserve Bank of Australia. Examine the issues surrounding the use of monetary policy in Australia to fight inflation in the current period.

One severe limitation on monetary policy is that it is a blunt instrument, incapable of complex economic settings. Indeed, it is elementary knowledge that the cash rate can only move up, down or remain the same. Each particular cash rate movement comes with a package of consequences which the Reserve Bank cannot alter.

Leading Edge Sept 2007



SECTION IV
(20 marks)

Attempt EITHER Question 27 OR Question 28.

Questions are of equal value.

Allow at least 35 minutes for this question.

Answer this question in a separate booklet.

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

EITHER

Q27. Using specific reference to product and factor markets you have studied, explain how microeconomic reform improves competition and efficiency in the Australian economy.

OR

Q28. What do you understand by the term Balance of Payments? Examine the factors that are currently influencing Australia's Balance of Payments.

END OF THE PAPER