Government of **Western Australia**
Curriculum Council

WACE
Western Australian Certificate of Education

Western Australian Certificate of Education Examination, 2010

Question/Answer Booklet

ECONOMICS

Stage 3

Please place your student identification label in this box

Student Number: In figures

In words _____

_____

Time allowed for this paper

Reading time before commencing work: ten minutes
Working time for paper: three hours

Materials required/recommended for this paper

To be provided by the supervisor

This Question/Answer Booklet
Multiple-choice Answer Sheet

To be provided by the candidate

Standard items: pens, pencils, eraser, correction fluid/tape, ruler, highlighters

Special items: non-programmable calculators satisfying the conditions set by the Curriculum Council for this course

Important note to candidates

No other items may be taken into the examination room. It is **your** responsibility to ensure that you do not have any unauthorised notes or other items of a non-personal nature in the examination room. If you have any unauthorised material with you, hand it to the supervisor **before** reading any further.

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Structure of this paper

Section	Number of questions available	Number of questions to be answered	Suggested working time (minutes)	Marks available	Percentage of exam
Section One: Multiple-choice	24	24	35	24	24
Section Two: Data interpretation/ Short response	3	3	65	36	36
Section Three: Extended response	4	2	80	40	40
				Total	100

Instructions to candidates

1. The rules for the conduct of Western Australian external examinations are detailed in the *Year 12 Information Handbook 2010.* Sitting this examination implies that you agree to abide by these rules.

2. Answer the questions according to the following instructions.

   Section One: Answer all questions on the separate Multiple-choice Answer Sheet provided. For each question shade the box to indicate your answer. Use only a blue or black pen to shade the boxes. If you make a mistake, place a cross through that square, do not erase or use correction fluid, and shade your new answer. Marks will not be deducted for incorrect answers. No marks will be given if more than one answer is completed for any question.

   Section Two: Write answers in this Question/Answer Booklet. Spare pages are included at the end of this booklet. They can be used as additional space if required to continue an answer. If you need to use the space to continue an answer, indicate in the original answer space where the answer is continued, i.e. give the page number. Fill in the number of the question(s) that you are continuing to answer at the top of the page.

   Section Three: Write answers in this Question/Answer Booklet. Pages are included at the end of this booklet for planning and writing your answer.
   - Planning: If you use the pages for planning, indicate this clearly at the top of the page.
   - Answering the question: In the pages provided indicate clearly the number of the question you are answering.

3. You must be careful to confine your responses to the specific questions asked and to follow any instructions that are specific to a particular question.

Section One: Multiple-choice **24% (24 Marks)**

This section has **24** questions. Answer **all** questions on the separate Multiple-choice Answer Sheet provided. For each question shade the box to indicate your answer. Use only a blue or black pen to shade the boxes. If you make a mistake, place a cross through that square, do not erase or use correction fluid, and shade your new answer. Marks will not be deducted for incorrect answers. No marks will be given if more than one answer is completed for any question.

Suggested working time: 35 minutes.

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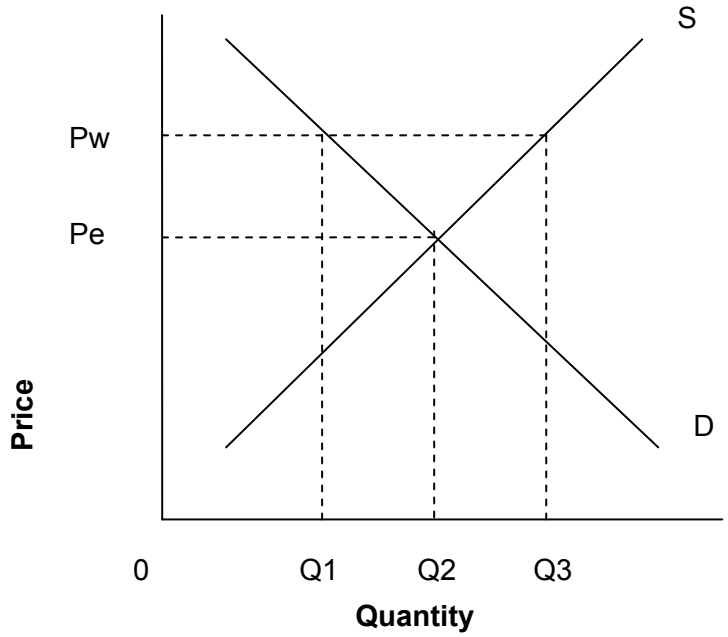
1. Which one of the following improves Australia's international competitiveness?

   (a) higher real wages in Australian exporting industries
   (b) appreciation of the Australian dollar
   (c) improved multi-factor productivity
   (d) an increase in domestic inflation relative to Australia's trading partners

2. This question refers to the graph below which depicts the Australian market for a good traded by Australia, where Pw is the world price of the good, and Pe is the equilibrium domestic price.



Australia will

   (a) consume quantity 0–Q3 units of the good, of which Q1–Q3 units are imported.
   (b) consume quantity 0–Q1 units of the good and export Q1–Q3 units.
   (c) consume quantity 0–Q2 units of the good and store Q2–Q3 units for the future.
   (d) consume quantity 0–Q1 units of the good and store Q2–Q3 units for the future.

3. In Australia, a tariff would normally be placed on _____ goods while subsidies would usually be given to _____ businesses to assist in their production of goods.

   The missing words are, respectively,

   (a) export; domestic import-competing
   (b) export; import
   (c) import; export
   (d) domestic import-competing; export

4. Assume the following exchange rate: $1 AUD = $0.92 USD. What will be the cost in AUD of an imported American car valued at $20 000 USD?

   (a) $18 400
   (b) $21 739
   (c) $21 600
   (d) $20 000

5. The payment of dividends by an Australian company to a foreign investor will appear in Australia's balance of payments as a

   (a) credit item in the current account.
   (b) debit item in the financial account.
   (c) credit item in the financial account.
   (d) debit item in the current account.

6. Which of the following statement(s) is correct?

   (i) A current account deficit will be balanced by a capital and financial account surplus.
   (ii) A capital and financial account surplus will be balanced by a current account surplus.
   (iii) A capital and financial account deficit will be balanced by a current account surplus.

   (a) (i) only.
   (b) (ii) only.
   (c) (i) and (iii) only.
   (d) (i), (ii) and (iii).

7. A worsening current account deficit is most likely to be a result of

   (a) a decrease in economic growth.
   (b) capital expansion in domestic manufacturing plants.
   (c) a positive gap between domestic savings and domestic investment.
   (d) an increase in exports.

8. This question relates to the table below.

Balance of Payments	
	$ million
Exports	5800
Imports	5500
Net Services	–800
Net Goods and Services	–500
Net Income and Current Transfers	–400
Capital Account + Financial Account	900

The balance on the current account is

(a) –$900 million.
(b) –$800 million.
(c) $0 million.
(d) –$1700 million.

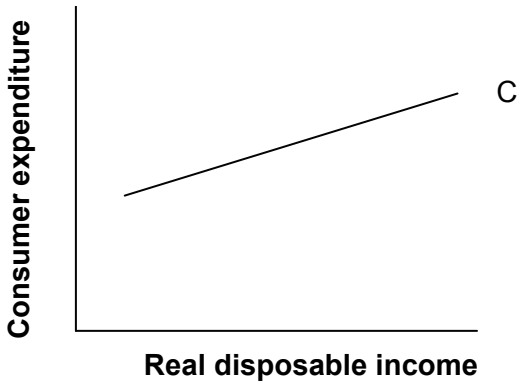
9. The sale of 15 per cent of the shares in an Australian company to a Chinese company will result in an increase in

(a) foreign investment and foreign debt.
(b) foreign liabilities and foreign debt.
(c) foreign direct investment.
(d) foreign portfolio investment.

10. Which one of the following statements is **incorrect**?

(a) Foreign investment enables Australian businesses to expand.
(b) Foreign investment creates employment.
(c) Foreign investment increases Australia's net worth.
(d) Foreign investment reduces Australia's net capital inflow.

11. This question relates to the graph below.



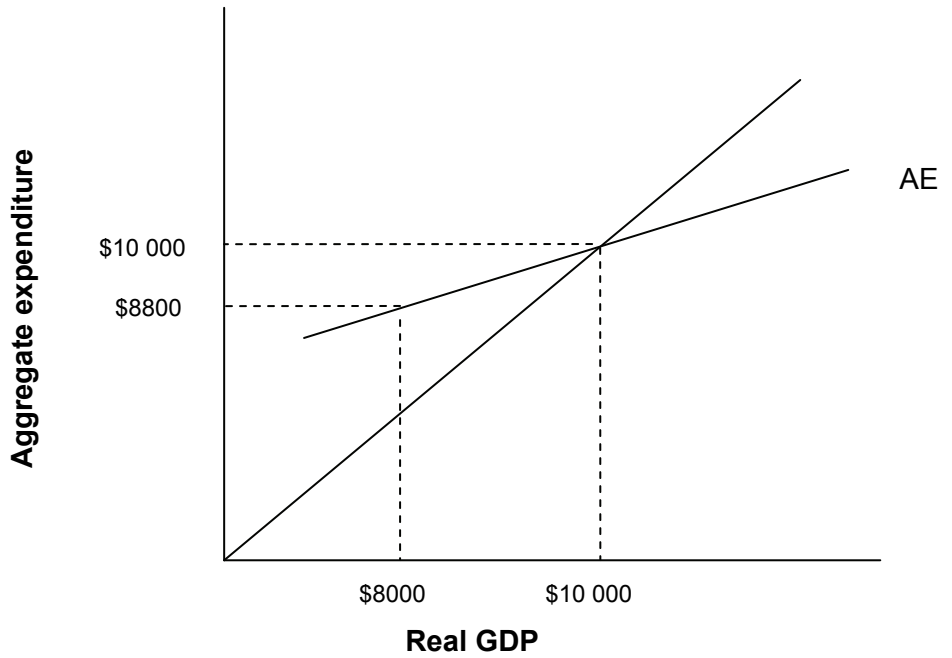
The slope of the consumption function equals the

(a) marginal propensity to consume.
(b) top marginal tax rate.
(c) marginal propensity to save.
(d) spending multiplier.

12. Macroeconomic equilibrium in Australia occurs when

(a) total spending equals total output.
(b) government spending equals government tax revenue.
(c) imports equal exports.
(d) savings equal investment.

13. This question relates to the graph below.



The graph has a marginal propensity to consume of _____ and, therefore, a multiplier of _____.

The missing figures are, respectively,

(a) 0.6, 2.5
(b) 0.6, 1.67
(c) 0.8, 5
(d) 0.8, 2.5

14. An increase in aggregate demand is likely to result in

(a) higher prices and slower growth in real GDP.
(b) higher real GDP and higher interest rates.
(c) lower interest rates and higher inflation.
(d) higher inflation and job creation.

15. A sustainable increase in real GDP is most likely to be achieved by

(a) higher consumption spending.
(b) investment in capital.
(c) good weather conditions for agricultural production.
(d) a sudden increase in exports.

16. A major weakness of fiscal policy is

(a) specific sectors of the economy cannot be targeted.
(b) the presence of automatic stabilisers.
(c) a long implementation lag.
(d) that it interferes with the political cycle.

17. Which one of the following is an example of discretionary fiscal policy?

(a) a reduction in marginal income tax rates
(b) an increase in tax collections during a boom
(c) an increase in government tariff revenue
(d) a decrease in government tax revenue

18. Which one of the following is **not** a method of financing a government budget deficit?

(a) borrowing from overseas
(b) borrowing from the Reserve Bank
(c) selling government bonds
(d) borrowing from the Treasury

19. A significant problem with monetary policy is that

(a) the Reserve Bank of Australia can be influenced by the Treasurer.
(b) interest rates can only be changed by 0.25%.
(c) consumers do not react to interest rate increases during a boom.
(d) it may not be effective during a recession.

20. Contractionary monetary policy is most likely to be used when

(a) inflation is high, unemployment is low and consumer spending is high.
(b) inflation is low, unemployment is high and consumer spending is low.
(c) inflation is high, unemployment is high and consumer spending is low.
(d) inflation is low, unemployment is low and consumer spending is high.

21. If the cash rate is lowered from 7.50% to 6.50%, what is the most likely impact on economic activity?

(a) There will be a reduction in the level of exports.
(b) There will be no impact, because consumers will not change their behaviour after only one change in interest rates.
(c) There will only be a small impact, as the banks will not pass on such a large decrease in interest rates.
(d) There will be an increase in economic activity as consumers and investors spend more.

22. An aim of microeconomic reform is to

(a) lower firms' production costs.
(b) increase aggregate demand.
(c) increase wages growth.
(d) eliminate excess capacity.

See next page

23. Which one of the following statements about productivity is correct?

(a) Productivity growth always results from capital investment.
(b) Labour productivity is the best measure of productivity growth.
(c) Productivity growth is measured by increases in the output of the economy.
(d) Productivity growth results from capital deepening.

24. In 2010, the main focus of the Australian Government's microeconomic reform policy has been on

(a) selling government assets.
(b) reforming the tax system.
(c) reforming the airline industry.
(d) lowering the current account deficit.

End of Section One

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Section Two: Data interpretation/Short response **36% (36 Marks)**

This section contains **three (3)** questions. Answer **all** questions. Write your answers in the space provided.

Spare pages are included at the end of this booklet. They can be used as additional space if required to continue an answer. If you need to use the space to continue an answer, indicate in the original answer space where the answer is continued, i.e. give the page number. Fill in the number of the question(s) that you are continuing to answer at the top of the page.

Suggested working time: 65 minutes.

Question 25 **(12 marks)**

This question refers to the table below.

	Terms of trade	Goods credits ($ millions)	Goods debits ($ millions)
Sept. 2008	118.3	61 303	59 518
Dec. 2008	115.5	66 816	63 788
Mar. 2009	105.9	55 838	51 934
Jun. 2009	98.5	47 514	47 197
Sep. 2009	99.6	46 476	50 777
Dec. 2009	102.5	46 638	53 536

Australian Bureau of Statistics, Balance of Payments and International Investment Position, Dec. 2009, Table 5302.0

(a) (i) Describe the movement in the terms of trade between June 2009 and December 2009. (1 mark)

(ii) Calculate the net goods balance for March 2009. (1 mark)

(b) Outline **two (2)** possible reasons for changes in export values between December 2008 and December 2009. (4 marks)

(c) Explain the possible effects on the Australian economy of the changes in the terms of trade, exports and imports during 2009. (6 marks)

Question 26 **(12 marks)**

This question refers to the extract below.

The term 'globalisation' began to be used more commonly in the 1980s, reflecting technical advances that made it easier and quicker to complete international transactions—both trade and financial flows. There are countless indicators that illustrate how goods, capital, and people, have become more globalised.

- The value of trade (goods and services) as a percentage of world GDP increased from 42.1% in 1980 to 62.1% in 2007.
- Foreign direct investment increased from 6.5% of world GDP in 1980 to 31.8% in 2006.
- The number of foreign workers increased from 78 million people (2.4% of the world population) in 1965 to 191 million people (3.0% of the world population) in 2005.

IMF Staff, *Globalisation: A Brief Overview*, 08/02 May 2008, p. 2

(a) (i) What made international transactions easier to complete? (1 mark)

(ii) What was foreign direct investment (FDI) as a percentage of world GDP in 2006? (1 mark)

(b) Apart from the benefits of globalisation listed in the three dot points on page 12, describe **two (2)** other benefits of globalisation. (4 marks)

(c) Using examples, explain **three (3)** factors that have facilitated globalisation in Australia. (6 marks)

Question 27 **(12 marks)**

This question refers to the tables below. Both Table A and Table B show fictional data for an economy with institutions similar to those of Australia.

Table A: National budget

Expenditure ($million)	Planned	Actual	**Revenue ($million)**	Planned	Actual
Social security and welfare	64 567	68 898	PAYG (income tax)	77 708	72 599
Health	24 597	25 242	Company tax	38 156	35 136
Education/training	10 761	12 966	Excise duties	19 046	16 019
Defence	10 261	10 360	Customs duties	4807	4676
Public debt interest	9724	7836	Other tax	4762	4606
Other	33 821	33 481	Non-tax	15 074	15 210
Total	153 731	158 783	**Total**	159 553	148 246

Table B: Economic indicators

	Forecast (planned)	Actual
Gross Domestic Product (percentage growth rate)	3.75	2.00
Unemployment rate (per cent)	6.25	6.75
Household Consumption (percentage growth rate)	3.75	2.40

(a) (i) Calculate the planned national budget outcome. (1 mark)

(ii) Calculate the difference between the planned and the actual national budget outcomes. (1 mark)

(iii) An economist would regard the overall level of actual economic activity as

strong **weak**

(Circle the correct alternative) (1 mark)

(b) Explain the possible monetary policy stance that the central bank might take in response to the actual economic indicators in Table B, and how this stance would affect the economy. (5 marks)

(c) Explain how the variations between forecast and actual economic indicators may have led to the discrepancy between the planned and actual budget outcomes. (4 marks)

End of Section Two

See next page

Section Three: Extended response **40% (40 Marks)**

This section contains **four (4)** questions. Answer **two (2)** questions. Write your answers in the space provided and number your answers clearly.

Pages are included at the end of this booklet for planning and writing your answer.

- Planning: If you use the pages for planning, indicate this clearly at the top of the page.
- Answering the question: In the pages provided indicate clearly the question number you are answering.

Suggested working time: 80 minutes.

Question 28 **(20 marks)**

In January 2009, the Australian dollar was worth 63 US cents. It appreciated to a high of 94 US cents in April 2010.

(a) Explain and demonstrate how the value of the Australian dollar is determined and describe **four (4)** possible causes of the appreciation of the Australian dollar between January 2009 and April 2010. Use a diagram to illustrate your answer. (12 marks)

(b) Explain the likely effects of this appreciation of the Australian dollar on Australia's balance of payments. (8 marks)

Question 29 **(20 marks)**

Consider each of the following events:

(i) an increase in world oil prices;
(ii) a depreciation of the Australian dollar.

(a) With the aid of separate AD/AS diagrams, explain the likely effects of each event on the Australian economy. (10 marks)

(b) Discuss the possible macroeconomic policy options available to the Australian Government to combat any negative effects of an increase in world oil prices. (10 marks)

Question 30 **(20 marks)**

(a) Examine how strong economic growth among Australia's major trading partners, e.g. China and Japan, can affect the components of aggregate expenditure and the business cycle in Australia. (12 marks)

(b) Explain how the consequent change in Australia's economic growth would affect each of the Australian Government's economic policy objectives. (8 marks)

Question 31 **(20 marks)**

Explain and evaluate **three (3)** arguments for and **three (3)** arguments against trade liberalisation for the Australian economy. (20 marks)

End of questions

Question number: _____

Question number: _____

Question number: _____

Question number: _____

Question number: _____

Question number: _____

Question number: _____

Question number: _____

Question number: _____

Question number: _____

Question number: _____

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ACKNOWLEDGEMENTS

Section Two

Question 25 Table: Australian Bureau of Statistics. (2009). *5302.0 - Balance of Payments and International Investment Position*, *Dec. 2009*. Retrieved April, 2010, from http://abs.gov.au/AUSSTATS/abs@.nsf/allprimarymainfeatures/4C0E1D016669551CCA257731001AB1DD?opendocument

Question 26 Extract from: International Monetary Fund Staff. (May, 2008). *Globalisation: A Brief Overview* (p. 2.). Retrieved March, 2009 from http://www.imf.org/external/np/exr/ib/2008/053008.htm

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