Government of **Western Australia**
Curriculum Council

WACE
Western Australian Certificate of Education

Western Australian Certificate of Education Examination, 2011

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 2011.* 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. 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. 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 of the following factors has **not** encouraged globalisation?

   (a) the growth of multinational corporations
   (b) higher world oil prices
   (c) the work of the World Trade Organisation
   (d) technological advances in transport

2. When countries form trading blocs, one of the main benefits from such economic integration is that

   (a) trade barriers among members and non-members are removed.
   (b) trading blocs facilitate greater globalisation.
   (c) monopolies will be removed.
   (d) member countries can achieve economies of scale.

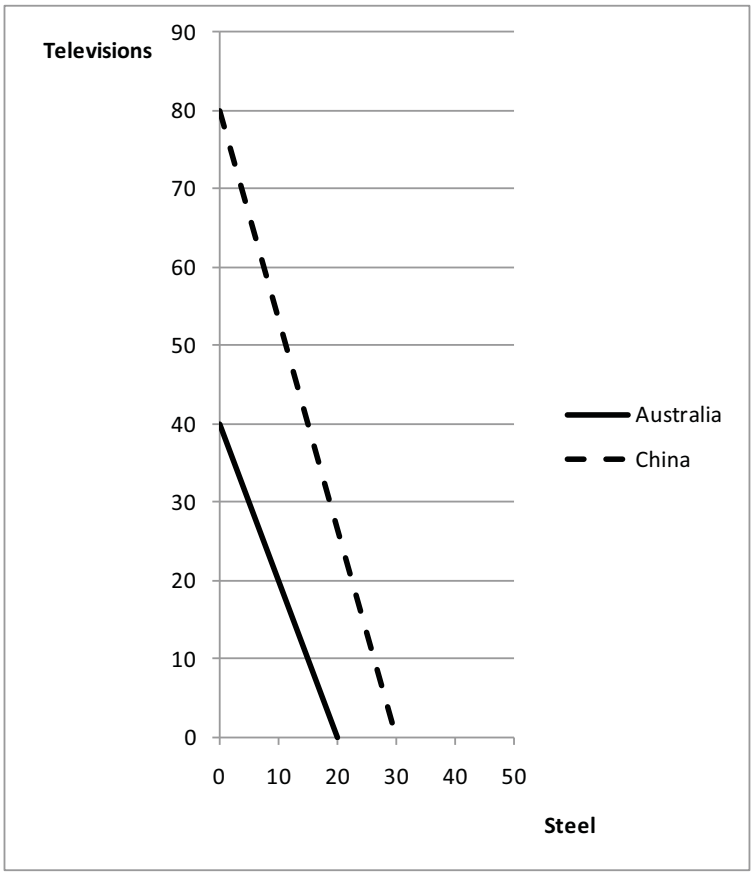
3. Globalisation has

   (a) enabled Australian firms to gain access to larger markets.
   (b) increased the Australian Government's tariff revenue.
   (c) increased cyclical unemployment in Australia.
   (d) allowed Australia to finance a higher proportion of its investment from domestic sources.

4. Which of the following developments does **not** explain the change in direction of Australia's pattern of trade in recent years?

   (a) The Asia-Pacific region has achieved higher rates of economic growth than Europe.
   (b) The discovery and development of major natural gas reserves in Australia is expanding.
   (c) Lower transport costs have given Australia an advantage when exporting to the Asia-Pacific region compared with Europe.
   (d) China has become a more significant participant in world trade.

5. This question is based on the graph below, which shows the production possibilities in Australia and China for televisions and steel.



Which of the following statements is correct?

(a) China has a comparative advantage in both products.
(b) China should specialise in and export, steel.
(c) Australia has a comparative advantage in producing televisions.
(d) Australia has a comparative advantage in steel production.

6. This question is based on the table below.

Balance of Payments	$m
Current account	
Goods credits	600
Goods debits	500
Net services	–300
Net income	?
Capital and financial account balance	1150

What is the value of Net income?

(a) $950m
(b) –$900m
(c) –$950m
(d) –$1000m

7. Australia typically runs a current account deficit in its balance of payments. One possible explanation for this deficit is

(a) the recent favourable movement in Australia's terms of trade.
(b) low national savings relative to national investment.
(c) the growth in the value of mineral exports.
(d) a fall in consumer confidence in Australia.

8. The Trade Weighted Index measures the

(a) value of the Australian dollar compared with a basket of currencies of our major trading partners.
(b) ratio of the total value of exports to the total value of imports for Australia.
(c) value of the Australian dollar by comparison with the value of all other countries' currencies.
(d) prices of Australian exports compared with the prices of Australian imports.

9. Which of the following is most likely to cause the value of the Australian dollar to change from US$1 = A$0.80 to US$1 = A$0.75?

(a) a slowdown in growth in Asia
(b) a sharp fall in commodity prices
(c) slower economic growth in Australia
(d) an increase in the cash rate

10. In the short term, large amounts of foreign investment into Australia will

(a) increase the current account balance, appreciate the dollar and lower exports.
(b) increase the financial account balance and lower exports.
(c) appreciate the dollar, increase exports and reduce imports.
(d) increase the current account balance by boosting exports.

11. Foreign investment differs from foreign debt as

(a) foreign debt involves a foreign entity gaining greater than 10% of the ownership of an Australian firm.
(b) foreign investment is recorded on the capital and financial account whereas foreign debt is recorded on the current account.
(c) foreign investment is more likely to be associated with the transfer of new technology and management practices.
(d) foreign investment is less likely to result in a loss of control and ownership of Australian resources.

12. If a Chinese firm purchases 50% of the shares of an Australian company this transaction will be classified as _____investment and the dividends paid to China will be recorded in Australia's balance of payments as_____.
Which of the following completes the statement above correctly?

(a) direct, an income debit
(b) direct, an income credit
(c) portfolio, a service debit
(d) direct, a capital and financial account debit

13. At the peak phase of the business cycle, which of the following is most likely to occur?

(a) a fall in the current account deficit due to high levels of domestic production
(b) an increase in the level of inventories due to high levels of output
(c) a high marginal propensity to consume
(d) an increase in the size of budget deficits due to higher wage costs in the public sector

14. During 2010 there was a significant increase in the savings rate in Australia. Which of the following factors may have contributed to this development?

(a) a decrease in the cash rate
(b) a fall in the marginal propensity to consume
(c) higher levels of consumer confidence after the global financial crisis
(d) a fall in superannuation fund levels as a result of higher returns in recent years

15. Which of the following would tend to decrease the size of a deflationary gap?

(a) an increase in the marginal propensity to consume
(b) a reduction in the level of interest rates
(c) an increase in the level of savings
(d) an increase in the size of the government's budget surplus

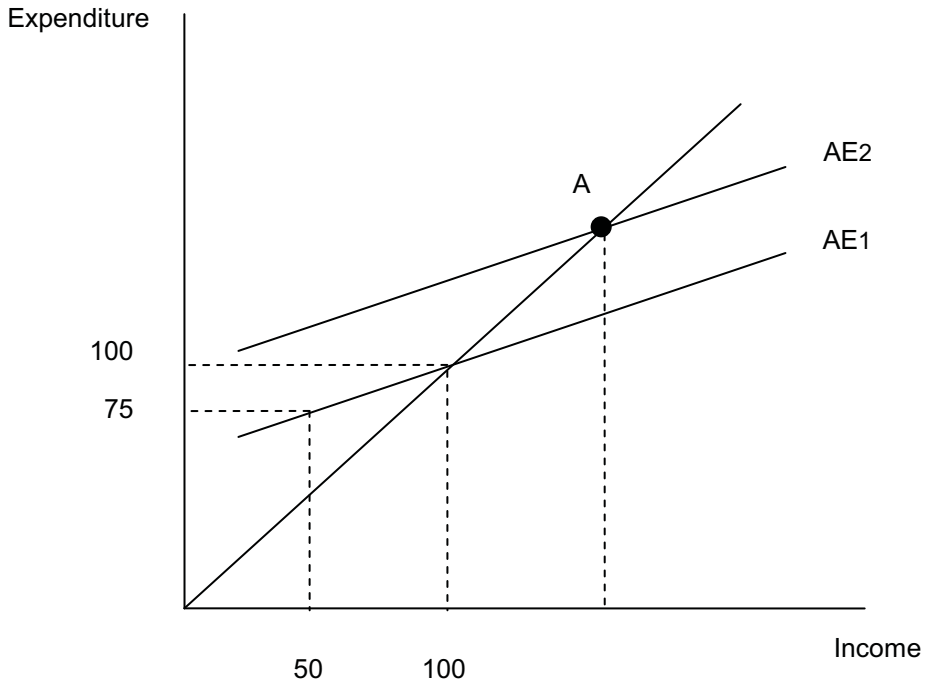
16. On the Keynesian aggregate expenditure diagram, the vertical distance between the 45 degree line and the aggregate expenditure line at any level of income is

(a) income.
(b) investment.
(c) savings.
(d) a deflationary gap.

17. Assume that the marginal propensity to save is 0.2. Also assume that the government simultaneously increases the taxes of high-income earners by $50m and increases government spending by $45m. As a result of this policy

(a) real GDP will fall.
(b) unemployment will fall.
(c) total spending will remain unchanged.
(d) interest rates are likely to be increased by the RBA.

18. This question is based on the diagram below.



In the diagram above, a $50 increase in government spending has shifted the aggregate expenditure line from AE1 to AE2. What is the value of income at the new equilibrium point A?

(a) $150
(b) $180
(c) $200
(d) $270

19. This question is based on the hypothetical data in the table.

Year	CPI	Unemployment (%)
2008	100.3	6.2
2009	102.1	6.1
2010	104.2	5.8
2011	108.7	6.8

From the information in the table, which of the following events is most likely to have occurred in 2011?

(a) an improvement in the terms of trade
(b) a large increase in world oil prices
(c) an improvement in productivity levels
(d) a fall in the level of consumer confidence

20. Which of the following pairs of government economic objectives are **least** likely to be compatible?

(a) economic growth and price stability
(b) efficient resource allocation and price stability
(c) full employment and economic growth
(d) full employment and an equitable income distribution

21. Which of the following are economic policy instruments in Australia?
(i) the size of the budget deficit or surplus
(ii) the cash rate
(iii) the underlying rate of inflation
(iv) the current account deficit
(v) income tax rates

(a) all of them
(b) (i) and (ii)
(c) (i), (ii) and (v)
(d) (i), (ii) and (iii)

22. During a period when the level of economic activity is falling, automatic stabilisers will

(a) lower government spending, lower tax receipts and help boost real GDP.
(b) stabilise real GDP by increasing tax receipts.
(c) decrease the level of unemployment by increasing private investment spending.
(d) move the government's budget toward a deficit.

23. Which of the following is **not** a correct description of the impact of microeconomic reform (MER) policies on the Australian economy?

(a) MER is more effective in combating demand pull rather than cost push inflation.
(b) The implementation of MER policies tends to be associated with an increase in short-term structural unemployment.
(c) MER has helped improve the competitive position of Australian export industries.
(d) MER has been a major contributor to recent increases in Australian labour productivity.

24. A microeconomic reform (MER) policy designed to increase competition between firms, will aim to improve

(a) technical efficiency.
(b) technical and allocative efficiency.
(c) technical and dynamic efficiency.
(d) technical, dynamic and allocative efficiency.

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 spaces provided.

Spare pages are included at the end of this booklet. They can be used for planning your responses and/or as additional space if required to continue an answer.

- Planning: If you use the spare pages for planning, indicate this clearly at the top of the page.
- Continuing 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 extract below, which is from an article written by Alan Mitchell, published in the *Australian Financial Review* on December 18, 2010.

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(a) Distinguish between bilateral and unilateral trade reform. (2 marks)

(b) Describe the **two** disadvantages of FTAs discussed in the extract above and describe **two** advantages of FTAs as a type of trade reform. (4 marks)

(c) Use an appropriate model to demonstrate and explain how trade reform policy can improve the wellbeing of the average Australian household. (6 marks)

Model

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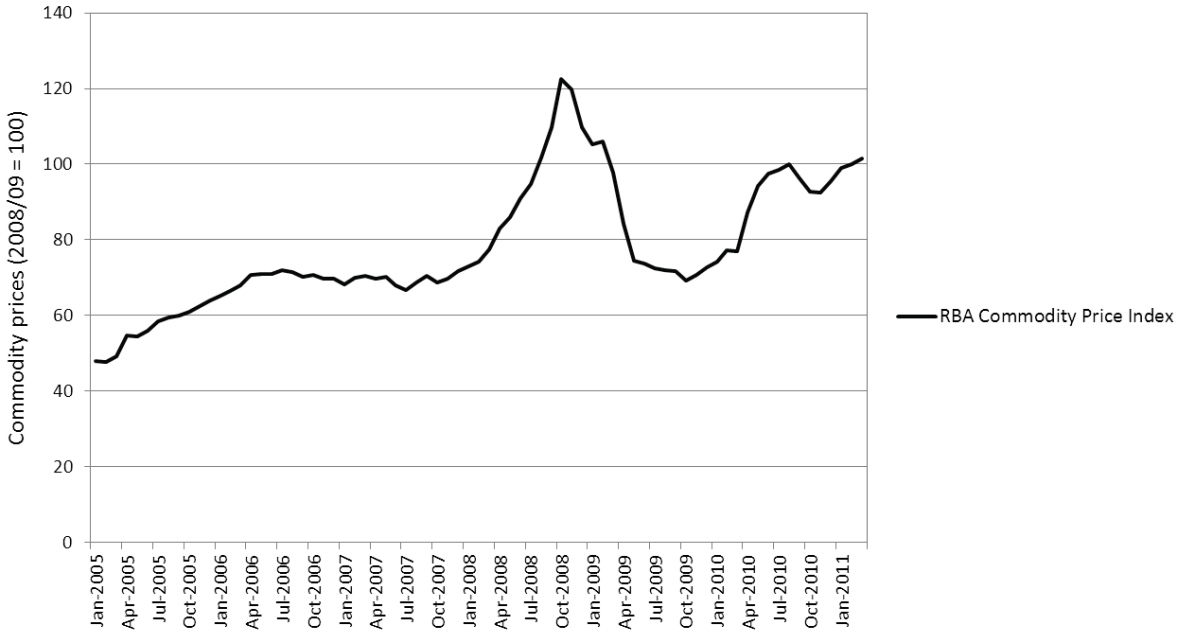
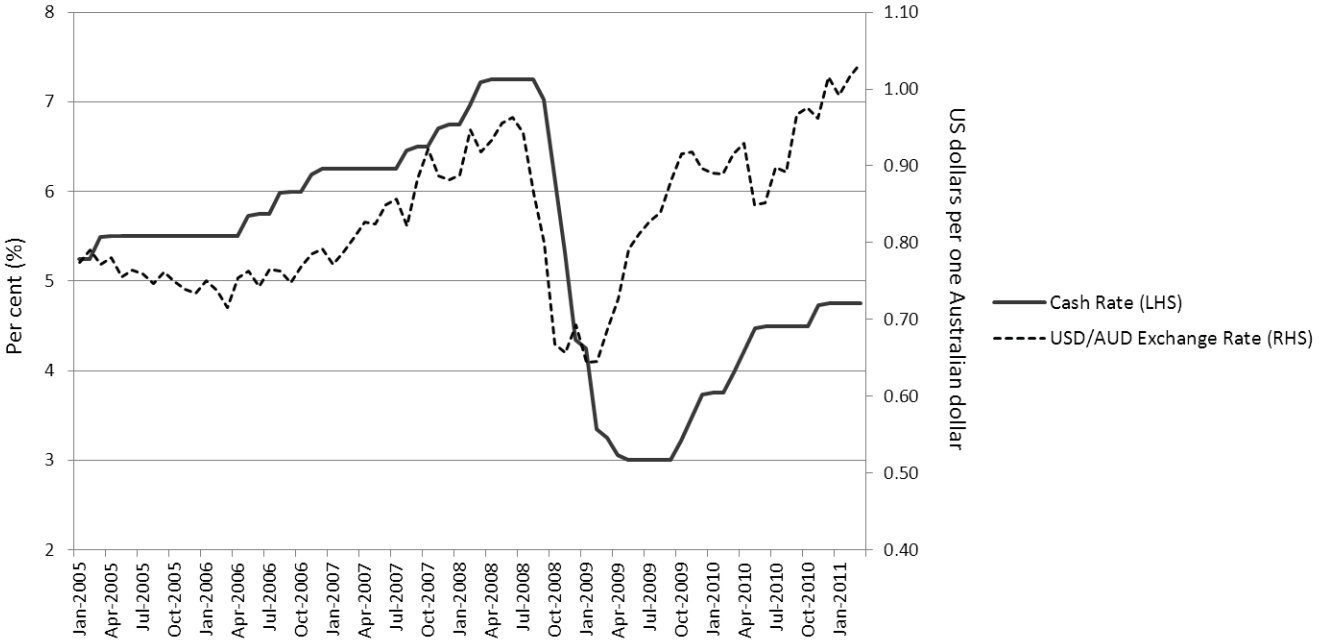
Question 26 **(12 marks)**

This question refers to the Reserve Bank of Australia (RBA) graphs below.

Commodity prices, cash rate and exchange rate





(a) (i) What was A$1 worth in terms of US$ in July 2010? (1 mark)

_____

(ii) How would the revenues of Australian farmers be affected by the change in the value of the Australian dollar from January 2009 to October 2009? (1 mark)

(iii) Was the depreciation in the value of the Australian dollar between July 2008 and October 2008 caused by changes in commodity prices? Give a reason for your answer. (2 marks)

(b) Discuss the negative impacts on the Australian economy of the change in the value of the Australian dollar that occurred between July 2010 and January 2011. (3 marks)

(c) Use an appropriate model to explain the role of commodity prices and monetary policy in the appreciation of the Australian dollar from October 2009 onwards. (5 marks)

Model

Question 27 **(12 marks)**

This question refers to the table below.

Australian Government budget aggregates

	2010–11 (estimates)	**2011–12** (estimates)	**2012–13** (projections)	**2013–14** (projections)
Revenue ($b)	321.8	356.4	381.9	407.2
Expenses ($b)	354.6	364.6	381.0	398.0

(a) (i) In what fiscal year will the budget return to surplus and what is the value of that surplus? (1 mark)

(ii) How will the projected government budget balance in 2013–14 impact on government debt? (1 mark)

(iii) If economic growth is higher than expected in 2013–14 onwards, how will this affect the government's revenue and expenditure? (1 mark)

(b) Describe **two** possible uses of future budget surpluses in Australia. Use examples to support your answer. (4 marks)

(c) Discuss **two** reasons for the budget outcome in 2010–11, and explain how such a budget outcome would impact on the Australian economy. Use an appropriate model to illustrate this impact. (5 marks)

Model

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 on the following pages 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)**

(a) Explain the various ways in which the Australian economy is linked to the economies of Asia. Use examples to support your explanation. (8 marks)

(b) Use an appropriate model to illustrate and explain the economic benefits for Australia, of trade with China. (12 marks)

Question 29 **(20 marks)**

Explain briefly the policy objectives of the Reserve Bank of Australia. Describe **two** reasons why it changed interest rates in 2010, and explain how this change is likely to affect each of the components of aggregate expenditure.

Question 30 **(20 marks)**

(a) Outline the recent trends in Australia's terms of trade and explain the relationship between the terms of trade and the current account balance. (12 marks)

(b) Is Australia's current account deficit a cause for concern? Give reasons to support your answer. (8 marks)

Question 31 **(20 marks)**

Explain how a surge in mining investment in Western Australian would affect the Australian economy. Use an appropriate model (or models) to support your answer.

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: _____

Question number: _____

Additional working space

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ACKNOWLEDGEMENTS

Section Two:

Question 25 Mitchell, A. (December 18, 2010). There's not a lot that comes free with Free Trade Agreements (FTAs). *The Australian Financial Review,* p. 18.

Question 26 Reserve Bank of Australia. (2011). *Commodity prices, cash rate and exchange rate.* Retrieved March, 2011, from www.rba.gov.au/statistics/tables/index.html.

Question 27 Table adapted from: Commonwealth of Australia. (2010). *Australian government budget aggregates*. Retrieved July, 2011, from www.budget.gov.au/2010-2011/content/html/overview_31.htm.

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