



Western Australian Certificate of Education Examination, 2012

Question/Answer Booklet

ECONOMICS

Stage 3

Please place your student identification label in this box

Student Number: In figures

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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

Number of additional answer booklets used (if applicable):

To be provided by the candidate

Standard items: pens (blue/black preferred), pencils (including coloured), sharpener, correction tape/fluid, eraser, ruler, highlighters

Special items: non-programmable calculators approved for use in the WACE examinations

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.

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

- The rules for the conduct of Western Australian external examinations are detailed in the *Year 12 Information Handbook 2012*. Sitting this examination implies that you agree to abide by these rules.
- 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 then shade your new answer. Do not erase or use correction fluid/tape. 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.

- 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, then shade your new answer. Do not erase or use correction fluid/tape. 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.

1. One possible valid argument against globalisation is that it may
 - (a) lead to higher rates of domestic inflation.
 - (b) create short term structural unemployment in less efficient domestic industries.
 - (c) result in increasing deficits in Australia's current account.
 - (d) lead to lower rates of economic growth.

2. The growth in multinational corporations has **not** been directly encouraged by
 - (a) the tendency for consumers across the world to develop similar lifestyles and tastes.
 - (b) strong growth opportunities within firms' domestic markets.
 - (c) the growth of foreign direct investment.
 - (d) significant differences in wage costs between countries.

3. Which of the following arguments for tariff protection is the **most** economically valid?
 - (a) It is important to protect some key industries in case of a wartime emergency.
 - (b) Australia cannot compete in those manufacturing industries where some overseas countries have much lower wage rates.
 - (c) Overseas firms may dump large surpluses of goods to the Australian market at low prices.
 - (d) A large appreciation of the \$A will make Australian import-competing manufacturing firms less competitive with imports.

4. Which of the following would **not** tend to improve Australia's overall international competitiveness?
 - (a) an increase in productivity growth
 - (b) a decrease in the cash rate
 - (c) an increase in spending on education and training
 - (d) an increase in tariff protection for the domestic motor vehicle industry

See next page

5. Which of the following statements relating to Australia's trade over the last decade is correct?
- (a) The total value of non-mineral exports has fallen.
 - (b) While Asia has become Australia's major market for exports, Europe has maintained its position as Australia's main source of imports.
 - (c) Mineral exports have increased as a proportion of total exports.
 - (d) Iron ore and gold have been Australia's largest exports by value.
6. Increased direct foreign investment in the Australian iron ore industry would be recorded in Australia's balance of payments as a
- (a) debit in the net incomes account.
 - (b) credit in the current account.
 - (c) credit in the capital account.
 - (d) credit in the financial account.
7. This question refers to the table below which shows output per unit of input in the production of cars and steel in Australia and China.

Country	Cars	Steel
Australia	6	12
China	2	8

- This information indicates that Australia has an
- (a) absolute advantage in both goods and a comparative advantage in neither.
 - (b) absolute advantage in both goods and a comparative advantage in steel.
 - (c) absolute advantage in both goods and a comparative advantage in cars.
 - (d) absolute advantage in neither good and a comparative advantage in cars.
8. Consider a change in the exchange rate from US\$1 = A\$1 to US\$1 = A\$0.95. The **most** likely cause of this change is
- (a) a reduction in interest rates in Australia.
 - (b) higher inflation in Australia than in the United States.
 - (c) a rise in commodity prices.
 - (d) strong productivity growth in the United States.

9. This question refers to the table below.

Year	Export price index	Import price index
1	100	100
2	110	120
3	120	125

For this economy in Year 3

- (a) the current account has improved.
 (b) there has been an increase in the volume of exports.
 (c) the terms of trade have deteriorated.
 (d) the terms of trade have improved.
10. This question refers to the diagram below.



Assume that the economy moves from point A to point B. The **most** likely cause of this movement is a

- (a) strong growth in wages.
 (b) depreciation in the exchange rate.
 (c) sharp reduction in net exports.
 (d) contractionary monetary policy.
11. If Australia experienced a favourable movement in its terms of trade, which of the following (other things being equal) would be **most** likely to occur?
- (i) a rise in the capital and financial account surplus
 (ii) a fall in the current account deficit
 (iii) a depreciation of the Australian dollar
 (iv) a rise in Australian living standards
- (a) (ii) and (iii)
 (b) (i), (iii) and (iv)
 (c) (i) and (iv)
 (d) (ii) and (iv)

12. An autonomous increase in aggregate income of \$100 leads to additional spending of \$80 in the next period and \$64 in the following period and so on. From this information, the value of the multiplier is

- (a) 0.8
- (b) 1.25
- (c) 5
- (d) 6

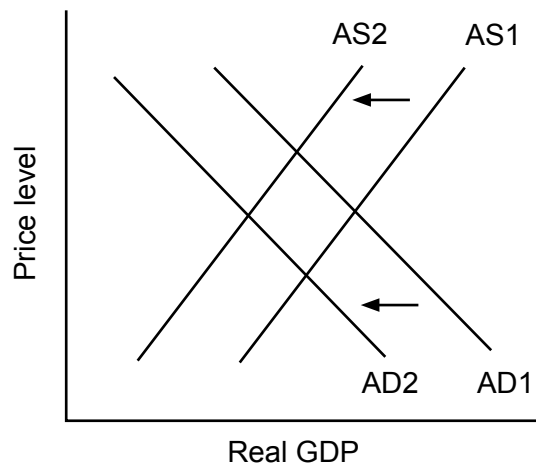
13. This question is based on the hypothetical data in the table below.

Year	CPI	CAD as % of GDP
2009	100.1	5.6
2010	104.2	6.4
2011	107.9	5.3
2012	109.3	3.7

From the information in the table above, which of the following events is **most** likely to have occurred in 2012?

- (a) an increase in the marginal propensity to save
 - (b) a fall in the terms of trade
 - (c) an increase in the level of foreign investment
 - (d) an increase in the level of consumer confidence
14. Fiscal policy tends to differ from monetary policy in that
- (a) fiscal policy is faster to implement and is more effective in a recession.
 - (b) fiscal policy is faster to implement and is supported by the operation of built-in stabilisers.
 - (c) monetary policy is faster to implement and is made more effective by a floating exchange rate.
 - (d) monetary policy is slower to implement and is more effective during a period of high economic activity.
15. The crowding-in effect may reduce the impact of a budget surplus on the economy because
- (a) more government funds will be available to finance infrastructure spending.
 - (b) it will tend to decrease interest rates and increase the availability of funds in the domestic savings pool.
 - (c) it may be counteracted by the operation of automatic stabilisers.
 - (d) interest rates are likely to increase, reducing the willingness of consumers and firms to borrow.

16. A contractionary monetary policy would involve the Reserve Bank of Australia _____ the cash rate which would **most** likely lead to a _____ in the price of assets such as shares and property and therefore _____ in the wealth of households.
- (a) decreasing, rise, an increase
 (b) decreasing, rise, a decrease
 (c) increasing, fall, a decrease
 (d) increasing, rise, an increase
17. Which of the following is a supply-side policy that will tend to reduce inflationary pressures in the economy?
- (a) an increase in the cash rate
 (b) an increase in welfare payments in the budget to compensate for higher costs of living
 (c) a reduction in the general level of tariff protection
 (d) income tax cuts for low and middle income earners
18. This question refers to the diagram below.



- Which of the following is **most** likely to cause the changes in the diagram above?
- (a) a decrease in the budget deficit and higher real wage costs
 (b) a decrease in the budget surplus and a fall in labour productivity
 (c) an increase in the budget deficit and higher levels of immigration
 (d) an increase in the budget surplus and a reduction in transport costs
19. Which of the following statements relating to the economic policy objectives of the Australian Government is correct?
- (a) The objectives of full employment and an equitable distribution of income tend to be compatible.
 (b) The Reserve Bank of Australia aims to keep the inflation rate between 2%–4% over the business cycle.
 (c) A budget surplus will tend to assist in achieving the objective of economic growth.
 (d) A more efficient allocation of resources is a major objective of monetary policy.

See next page

20. Which of the following economic policy time lags is typically shorter for fiscal policy than for monetary policy?
- (a) impact lag
 - (b) recognition lag
 - (c) decision-making lag
 - (d) implementation lag
21. Which combination of factors could explain a Federal government budget surplus larger than originally estimated?
- (i) an appreciation of the Australian dollar
 - (ii) an unexpected increase in tax avoidance
 - (iii) a rate of economic growth higher than expected
 - (iv) an unexpected increase in unemployment
 - (v) the breaking of a prolonged drought in Australia's agricultural regions
- (a) (i) and (iv)
 - (b) (iii) and (v)
 - (c) (i) and (iii)
 - (d) (i) and (v)
22. A significant strength of monetary policy by comparison with fiscal policy is that it
- (a) can be targeted at particular sectors of the economy.
 - (b) is more direct in its impact on the economy.
 - (c) has a relatively short impact lag.
 - (d) is relatively more effective in a boom than in a recession.
23. Which of the following is an example of structural change in the economy?
- (a) a relative decline in output in the clothing and footwear industries
 - (b) an increase in the rate of inflation
 - (c) a fall in the rate of unemployment
 - (d) a decrease in the level of protection through lower tariffs
24. When an open economy is in macroeconomic equilibrium, which of the following is true?
- (a) savings equals domestic investment
 - (b) inventories are neither rising or falling
 - (c) the stances of both monetary policy and fiscal policy are neutral
 - (d) the current account balance equals the capital and financial account balance

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.

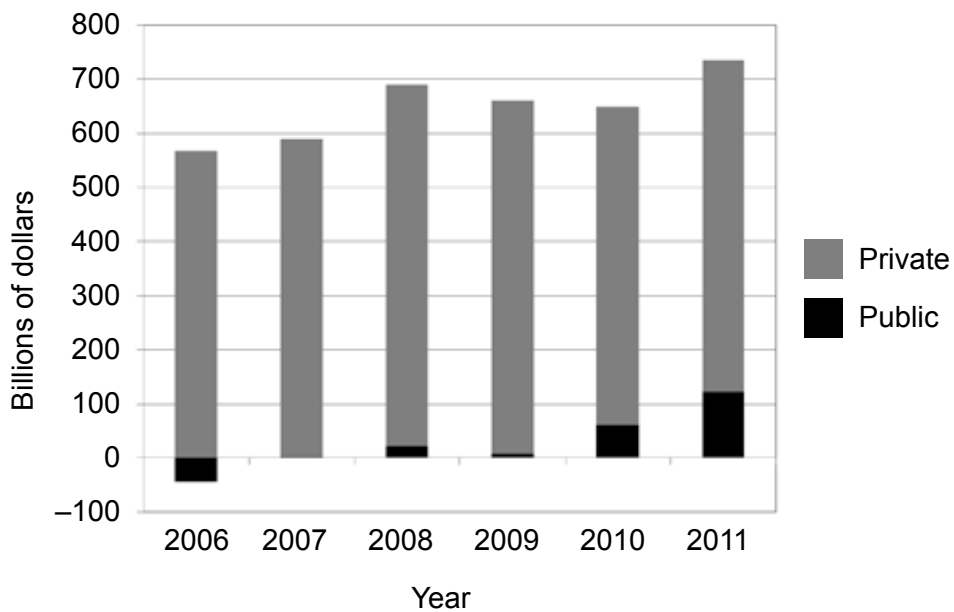
Spare pages are included at the end of this booklet. They can be used as additional space if required to continue an answer. If you need to use the space to continue an answer, indicate in the original answer space where the answer is continued, i.e. give the page number. Fill in the number of the question(s)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

Suggested working time: 65 minutes.

Question 25

(12 marks)

Australia's Net Foreign Debt 2006–11



Source: http://www.rba.gov.au/statistics/tables/index.html#balance_payments

- (a) (i) What was the total value of Australia's private-sector net foreign debt in 2011? (1 mark)

- (ii) In what year did Australia's private-sector net foreign debt exceed \$600 billion for the first time? (1 mark)

(b) Explain why Australia's public-sector net foreign debt increased after 2009. (4 marks)

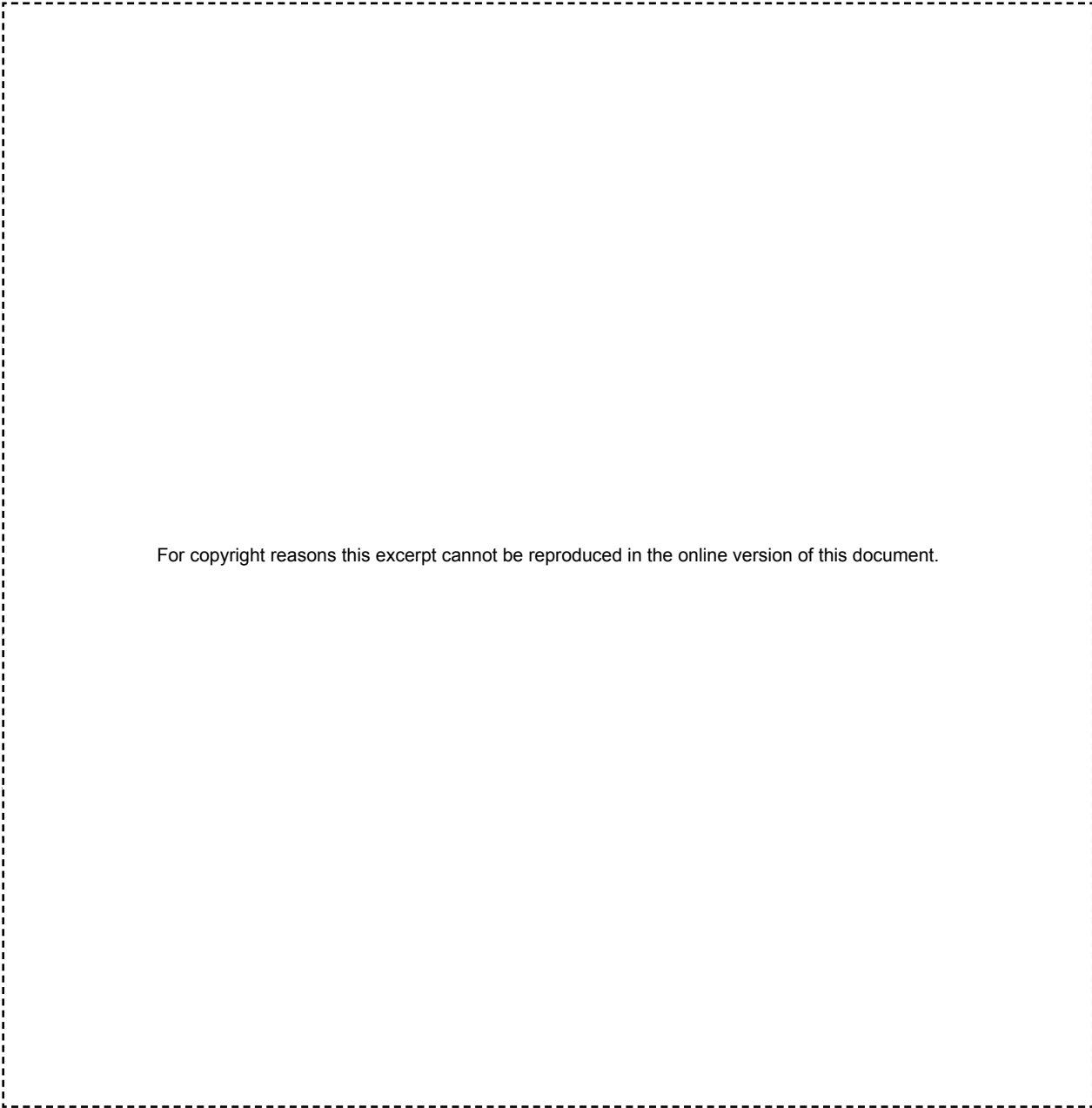
- (c) Explain briefly why Australia needs high levels of foreign investment from overseas and outline the major benefits of this investment. (6 marks)

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Question 26

(12 marks)



Question 26 (continued)

(a) (i) What is the forecast budget outcome for 2012–13? (1 mark)

(ii) Apply the ‘rule of thumb’ described in the article to calculate the change in the cash rate required to keep GDP the same assuming there was an \$8b cut in government spending. (1 mark)

(iii) Which macroeconomic policy does the Prime Minister wish to be expansionary in 2012–13? (1 mark)

(b) Explain why the decrease in the cash rate mentioned in the article would be likely to increase consumer spending. (4 marks)

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Question 27

(12 marks)

Components of Australia's current account

Year	Goods credits \$b	Goods debits \$b	Services balance \$b	Balance on goods and services \$b	Net income (primary income plus secondary income) \$b	Balance on current account
2006–07	169.5	-183.5	0.8	-13.2	-45.7	
2007–08	182.9	-204.8	-2.7	-24.6	-48.5	
2008–09	231.4	-222.4	-2.9	6.1	-44.5	
2009–10	201.7	-205.0	-1.4	-4.7	-51.4	
2010–11	247.0	-219.3	-16.7	21.0	-54.2	

Source: Balance of Payments and International Investment Position, ABS (Cat. No 5302)

- (a) (i) Calculate the goods balance for 2008–09? (1 mark)

- (ii) Calculate the current account balance for 2010–11? (1 mark)

- (b) Describe and account for the significant change that occurred in the Services balance in 2010–11. (4 marks)

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

This section contains **four (4)** questions. Answer **two (2)** questions. Write your answers in the lined pages 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 number of the question you are answering.

Suggested working time: 80 minutes.

Question 28**(20 marks)**

The head of the Productivity Commission (Gary Banks) has attacked the use of taxpayer cash to prop up struggling manufacturers, adding to the growing criticism of the federal government's promise to bail out the local arm of General Motors. [In the 2009–10 financial year taxpayer subsidies to this industry were \$1.6 billion.]

Source: *Economy ends up the loser*. Australian Financial Review, 18 February, 2012.

- (a) Use a diagram to demonstrate and explain the effects of a subsidy on the car industry and other sectors of the Australian economy. (8 marks)
- (b) Outline **four** benefits that might be expected from the adoption of a policy of trade liberalisation. (12 marks)

Question 29**(20 marks)**

Using an appropriate diagram(s) and recent examples, discuss how microeconomic reform (MER) can contribute to an increase in both productivity and efficiency, thereby raising living standards.

Question 30**(20 marks)**

From January 2009 to January 2012, the Australian dollar appreciated from US\$0.64 to US\$1.08.

- (a) Using diagrams, illustrate and describe the **three** main causes of this appreciation of the Australian dollar. (8 marks)
- (b) Discuss the effects this appreciation is likely to have had on trade, foreign investment and the macro economy. (12 marks)

Question 31**(20 marks)**

Using the AD/AS model, illustrate and explain the possible causes of a recession in Australia and discuss a range of effects a recession is likely to have on the Australian economy.

End of questions

Question number: _____

Handwriting lines (horizontal lines for text entry)

ACKNOWLEDGEMENTS

Section Two

Question 25 Data source: Reserve Bank of Australia. (n.d.). *Australia's net foreign debt 2006–2011*. Retrieved March, 2012, from www.rba.gov.au/statistics/tables/index.html#balance_payments.

Question 26 Extract from: Mitchell, A. (2011, November 19). The art of buying a rate cut. *Australian Financial Review*, p. 32.

Question 27 Data source: Australian Bureau of Statistics. (n.d.). *5302.0–Balance of payments and international investment position, Australia*. Retrieved March, 2012, from <http://abs.gov.au/AUSSTATS/abs@.nsf/mf/5302.0/>. Licensed under a Creative Commons Attribution 2.5 Australia licence.

Section Three

Question 28 Data source: Dunckley, M., Walsh, K., & Kerin, J. (2012, February 18). Economy ends up the loser. *Australian Financial Review*, p. 8.

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